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THE STUDENTS' CATECHISM
ON
BOOK-KEEPING
ACCOUNTING AND BANKING

"The advice which I ventured to give both to teachers and candidates, last year and the year before, as to reading the questions with care and only answering what is asked, has again not been followed. If teachers would only drill their students well in this direction much good might be done."

Extract from the Examiner's Report on the papers worked in 1909, at the examination in book-keeping held by the Royal Society of Arts.

12487s

THE STUDENTS' CATECHISM ON BOOK-KEEPING

ACCOUNTING AND BANKING

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WITH AN APPENDIX

CONTAINING A GRADUATED COURSE OF EXERCISES AND EXAMINATION
QUESTIONS

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PREFACE

ALTHOUGH numerous works on Book-keeping have been published during recent years, the experience of examiners and teachers clearly indicates that the requirements of the average student have not been entirely met, and that some new method of instruction is needed. Examiners report, year after year, that the answers given by candidates are not satisfactory, and every teacher of Book-keeping knows how few students there are who can give clear and concise answers to questions on the subject, even after months of study.

This defect on the part of students frequently arises not so much from want of general knowledge of the subject as from inability to find words to give appropriate expression to the specific knowledge which they are called upon to display. In a recent lecture on Executorship Accounts, Mr. Roger N. Carter, M. Com. F.C.A., impressed upon students the necessity of learning good definitions of the various terms used, and added: "A long experience of students has taught me that, whilst many of them know what such expressions mean, they find a great difficulty (if they have not practised it), in putting their ideas into words."

The present work is based upon a new system, and is specially designed to enable any one to acquire a practical knowledge of Book-keeping with a minimum expenditure of time and trouble, and at the same time to learn how to answer questions on the subject. In order to secure these results, the work is composed of graduated and classified questions and answers, so arranged as to form an easy, systematic, and complete course of instruction in the principles and practice of Book-keeping.

This system has many advantages, some of which may be mentioned, viz.—

Its simplicity renders the subject easier to learn.

The questions serve to create and to sustain interest in the subject, and the answers, when learnt, act as a stimulus to students, by enabling them to realize the extent of their progress from time to time.

The directness of the method affords opportunities for bringing forcibly to mind those fundamental principles which it is essential that students should learn, but which are often obscured and lost sight of when explained in the usual descriptive manner.

The principles of the subject having been thus impressed upon the minds of students, they are able to perform the practical work of Book-keeping with greater ease and accuracy.

A great part of the time which students ordinarily devote to reading is made available for working exercises.

The system results in a great saving of time on the part of teachers, and enables students to acquire knowledge much more readily than by the ordinary methods of instruction.

The work is the outcome of the Author's experience of the requirements of students, and is intended to serve as a guide to all examinations in Book-keeping and Accountancy. The chapters on Banking and Bank Book-keeping have been specially written to supply the needs of candidates who are preparing for the Accounting and Banking Examination of the Royal Society of Arts. The Author's aim, however, has been not merely to provide a means of passing examinations, but to furnish materials for laying the foundations of a sound and practical knowledge of the subject.

The most effective method of using the book for class instruction will be to select a certain number of the questions and answers to be learnt by students, and to devote a part of each lesson to testing their knowledge by obtaining from them written answers to such questions as the teacher may

consider the most important. The other questions may be answered orally, and teachers will doubtless vary the form of the questions, and frequently revise so as to prevent anything in the nature of cramming on the part of students. Any points of doubt or difficulty will be explained by the teacher, and the rest of the lesson may be devoted to working an exercise.

The exercises in the appendix are arranged to correspond with the order of the text, and with the exception of the first and second, all the earlier exercises can be proved by means of a Trial Balance. A considerable number of the exercises are taken from recent examination papers, and the Author acknowledges his obligations to the various examining bodies concerned for permission to use their questions in this way.

The work will be found to cover a wide field of practical knowledge. Care has been taken to make clear the principles of Double-entry, and, in addition to explanations of the methods of keeping the usual books of account, special attention has been given to such important subjects as Bills of Exchange, Partnership Accounts, the accounts of Joint Stock Companies, Reserves and Sinking Funds, Income Tax, Cost Accounts, Solicitors' Accounts, and the accounts of Executors and Trustees. An important feature of the book is the large number of worked examples and forms of books, which have been introduced to illustrate the subjects dealt with, and, although it is intended primarily for students, the Author hopes that it will be welcomed by all business men who may wish to acquire a useful knowledge of accounts with the least possible expenditure of time and trouble.

F. D.

WANDSWORTH COMMON, S.W.
September, 1910.

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THE STUDENTS' CATECHISM

ON

BOOK-KEEPING

ACCOUNTING AND BANKING

CHAPTER I.

Definition and objects of book-keeping—Explanation of terms—Use of Journal and Ledger—The different groups of accounts and their purposes—The principles of double-entry book-keeping—Rules for debiting and crediting the different kinds of accounts—The Trial Balance.

Q. What is book-keeping ?

A. Book-keeping is that branch of commercial knowledge which treats of recording facts relating to pecuniary transactions.

Q. What are pecuniary transactions ?

A. Pecuniary transactions are dealings between persons which involve the transfer of money or money's worth.

Q. What are the objects of book-keeping ?

A. The objects of book-keeping are to enable a person to ascertain at any time—

1. The amounts owing by him to his creditors.
2. The nature and amount of his assets, including the amounts due to him by his debtors.
3. The amount of his gains or losses during any given period.
4. The amount of his Capital.

Q. What is a creditor ?

A. A creditor is a person to whom money is owing by
D.A.B. B

another person. The amounts owing by a merchant to his creditors are termed his liabilities.

Q. What is a debtor ?

A. A debtor is a person who owes money to another person. The amounts due to a merchant by his debtors are part of his assets. Other assets are Cash, Stock, Fixtures, Premises.

Q. What is Capital ?

A. In book-keeping the term "Capital" means the amount which a merchant invests in his business. It is represented by the excess of assets over liabilities.

Q. In recording transactions what objects should be kept in view ?

A. The objects of the book-keeper should be—

1. To make the records clear and complete, so that the facts relating to any transaction can be ascertained at any future time.
2. To classify the records so that the result of all transactions during a given period and the financial position of a business can be ascertained with ease and certainty at any time.

Q. How may these objects be achieved ?

A. These objects may be achieved by the use of two books, viz.—

1. A Journal or Daily Register of transactions.
2. A Ledger.

Q. What is a Journal ?

A. A Journal is a book in which is entered a chronological record of transactions so arranged as to facilitate the financial results thereof being subsequently recorded in the Ledger.

Q. What is a Ledger ?

A. A Ledger is a book which contains in a classified form a record of the financial results of all transactions.

Q. How are the records in the Ledger classified ?

A. They are classified by means of accounts under the names of—

- (a) The various persons with whom the merchant has dealings.
- (b) The various forms of property dealt in or possessed by the merchant.

- (c) The various sources of the merchant's gains and the various forms of his losses and expenses.

Q. How may Ledger accounts be grouped ?

- A. Ledger accounts may be divided into two groups, viz.—
1. Those relating to the persons with whom the merchant's transactions takes place, called Personal Accounts.
 2. Those relating to the property of a merchant, and to his gains and losses, called Impersonal Accounts.

Q. How many kinds of Impersonal Accounts are there ?

- A. Impersonal Accounts are of two kinds, viz.—
1. Real Accounts, or accounts of the various forms of property possessed by a merchant.
 2. Nominal Accounts, or accounts of a merchant's gains, losses, and expenses.

Q. What are the objects of keeping Personal Accounts ?

A. Personal Accounts are kept in order that a merchant may readily ascertain—

1. The names of the persons who are his debtors or his creditors.
2. The amounts owing to him by his debtors, and the amounts owing by him to his creditors.
3. The dates when the transactions with any of such persons took place and the nature thereof.

Q. Why are Real Accounts kept ?

A. Real Accounts are kept in order that a merchant may know the amount of property he has acquired and parted with during a given period, and the value remaining on hand at any given date.

Q. Why are Nominal Accounts kept ?

A. Nominal Accounts are kept so that a merchant may know the nature and amount of his gains, losses, and expenses during any given period.

Q. How are Ledger accounts ruled ?

A. Ledger accounts are ruled vertically with two sides, that on the left hand being called the Debtor side and that on the right hand being called the Creditor side. Example—

4 DEBITING AND CREDITING ACCOUNTS

DR.				LEDGER ACCOUNT.				CR.			
Date.	Particulars.	Folio.	Amount.			Date.	Particulars.	Folio.	Amount.		
			£	s.	d.				£	s.	d.
1	2	3	4			1	2	3	4		

Explain the uses of the different columns on each side of the account.

A. The columns on each side are used for the following purposes:—

1. To enter the date when each transaction takes place.
2. To enter the subject of the transaction, that is, whether cash, goods, or otherwise.
3. To enter the folio of the book which contains the original and more detailed entry of the transaction.
4. To enter the amount.

Q. What is meant by debiting and crediting accounts?

A. To debit an account is to enter an amount on the Dr. side; this is called a debit entry.

To credit an account is to enter an amount on the Cr. side; this is called a credit entry.

Q. When are amounts entered on the Dr. and Cr. sides of accounts respectively?

A. Since every transaction involves the transfer of money or money's worth, it follows that for every transaction there must be both a receiver and a giver, and Ledger accounts may be regarded as records of—

- | | | |
|-------------------|-----------|------------------------------------------------|
| 1. Value received | } either— | (a) by the merchant himself, or |
| 2. Value given | | (b) by the persons with whom he does business. |

Amounts are entered on the Dr. side of accounts to record value received, and on the Cr. side to record value given.

Q. How many Ledger entries are necessary to record each transaction?

A. Two entries are necessary to record each transaction, viz.—

1. A debit entry in one account to record the value received.
2. A credit entry in another account to record the value given.

Illustrate the truth of this statement by recording the following transaction in A. Merchant's Ledger :—

1910.
Jan. 1. Sold goods for cash, £20.

A. This transaction would be recorded in the Ledger as under :—

Dr.		CASH ACCOUNT.						Cr.			
1910.				£	s.	d.			£	s.	d.
Jan. 1	To Goods	.	1	20	0	0					

Explain the reason for these entries.

A. As a result of the transaction two facts have to be recorded, viz.—

1. That cash £20 is received by A. Merchant.
2. That goods value £20 have been parted with by him.

Therefore an entry of £20 is made on the Dr. side of his Cash Account, which in this case records the value of what is received, viz. Cash, and an entry of £20 is made on the Cr. side of his Goods Account, which records the value of what is given, viz. Goods.

Q. Why are the words "To" and "By" prefixed to the names of the subjects of the transaction, i.e. Cash and Goods?

A. An account is always regarded as debtor to some other account, and creditor by some other account. The word "To"

is therefore used as a prefix on the Dr. side, and the word "By" is used as a prefix on the Cr. side. Thus we say that

Cash is Dr. To Goods and Goods is Cr. By Cash.

Q. How should the following transaction be recorded in A. Merchant's Ledger?—

1910.

Jan. 3. Bought of John Smith on credit goods value £30.

A. The transaction would appear in A. Merchant's Ledger as follows :—

DR.		JOHN SMITH'S ACCOUNT.						CR.	
		£	s.	d.	1910. Jan. 3	By Goods		£	s. d.
								30	0 0

DR.		GOODS ACCOUNT.						CR.	
1910. Jan. 3	To John Smith	£	s.	d.				£	s. d.
		30	0	0					

Explain the reason for these entries.

A. As a result of the transaction two facts have to be recorded, viz.—

1. That J. Smith *gives* value in goods to the amount of £30 and thereby becomes A. Merchant's creditor.
2. That A. Merchant *receives* value in goods to the amount of £30.

Therefore a credit entry of £30 is made in J. Smith's Account to record the value *given* by him, and a debit entry is made in Goods Account to record the value of what is *received* by A. Merchant.

Q. How should the following transaction be recorded in A. Merchant's Ledger?—

1910.

Jan. 5. Sold to A. Brown on credit goods value £18.

A. The transaction would appear in A. Merchant's Ledger as follows :—

Dr.		A. BROWN'S ACCOUNT.				Cr.		
1910.		£	s.	d.		£	s.	d.
Jan. 5	To Goods .	18	0	0				

Dr.		GOODS ACCOUNT.					Cr.		
		£	s.	d.	1910.		£	s.	d.
					Jan. 5	By A. Brown	18	0	0

Explain the reason for these entries.

A. As a result of the transaction two facts have to be recorded, viz.—

1. That A. Brown *receives* value in goods to the amount of £18, and thereby becomes A. Merchant's debtor.
2. That A. Merchant *gives* value in goods to the amount of £18.

Therefore a debit entry of £18 is made in A. Brown's Account to record the value *received* by him, and a credit entry is made in Goods Account to record the value *given* by A. Merchant.

Q. How should the following transaction be recorded in A. Merchant's Ledger ?—

1910.
Jan. 8. Paid cash for wages, £5.

A. The transaction would appear in A. Merchant's Ledger as follows :—

DR.		CASH ACCOUNT.				CR.			
		£	s.	d.	1910. Jan. 8	By Wages	£	s.	d.
							5	0	0

DR.		WAGES ACCOUNT.				CR.			
1910.			£	s.	d.		£	s.	d.
Jan. 8	To Cash		5	0	0				

Explain the reason for these entries.

A. As a result of the transaction two facts have to be recorded, viz.—

1. That cash is parted with to the amount of £5.
2. That services represented by the amount of wages (£5) have been received.

Therefore a credit entry of £5 is made in A. Merchant's Cash Account to record the value *given*, and a debit entry of £5 is made in his Wages Account to record the value *received*.

Q. What is meant by Double-entry Book-keeping?

A. Double-entry Book-keeping is the system by which the two-fold or double effect of every transaction is recorded in appropriate accounts in the Ledger.

Q. What rule must always be complied with in Double-entry Book-keeping?

- A. The following rule must always be complied with, viz.—
- Every debit entry must have a corresponding credit entry.
- Every credit entry must have a corresponding debit entry.

Q. What result follows the adoption of this rule?

A. The result is that the total amount of the debit entries

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Q. What does this fact enable a book-keeper to do?

Q. What is a Trial Balance?

Show all the accounts recording the transactions previously mentioned as they would appear in A. Merchant's Ledger, and prove their accuracy by means of a Trial Balance.

Dr.		JOHN SMITH'S ACCOUNT.		Cr.	
	£	s. d.	1910.		£ s. d.
			Jan. 3	By Goods	30 0 0

THE TRIAL BALANCE

Dr.		A. BROWN'S ACCOUNT.						Cr.		
1910.										
Jan. 5	To Goods		£	s.	d.			£	s.	d.
			18	0	0					

DR.		WAGES ACCOUNT.						CR.			
1910.			£	s.	d.				£	s.	d.
Jan.8	To Cash	.	5	0	0						

TRIAL BALANCE.

	Debits.			Credits.		
	£	s.	d.	£	s.	d.
Cash Account	20	0	0	5	0	0
Goods "	30	0	0	38	0	0
John Smith's Account				30	0	0
A. Brown's Account	18	0	0			
Wages Account	5	0	0			
	73	0	0	73	0	0

Indicate the group to which each of the above-mentioned accounts belong.

A. The above accounts belong to the following groups :—

John Smith	}	. . . . .	Personal Accounts.
A. Brown			
Goods	}	. . . . .	Real Accounts.
Cash			
Wages			Nominal Account.

Q. Are there any simple rules for making debit and credit entries in each of the three kinds of accounts ?

A. The following rules may be used in making entries in each of the three classes of accounts :—

1. Personal accounts—
Debit the Receiver.
Credit the Giver.
2. Real Accounts—
Debit what comes in.
Credit what goes out.
3. Nominal Accounts—
Debit Expenses and Losses.
Credit Gains.

CHAPTER II.

The Journal—Relation of Journal to Ledger—Form of Journal—How to journalize—Opening entries . . . . .	12-21

Q. What is the relation between the Journal and the Ledger ?

A. The Journal contains the original entry of transactions in chronological order preparatory to the two-fold effect thereof being recorded in the Ledger. The act of making entries in the Journal is called journalizing, and the act of transferring records from the Journal to the Ledger is called posting the Journal.

Q. What is the ordinary ruling of the Journal ?

A. The following is the ordinary ruling :—

Date.	Particulars.	Ledger folio.	DR.			CR.		
			£	s.	d.	£	s.	d.
1	2	3	4			5		

Explain the use of each of the columns.

A. The columns of the Journal are used as follows :—

1. For the date of the transaction.
2. For the names of the accounts in the Ledger to be debited and credited in consequence of the transaction, and any necessary particulars concerning its nature. Such particulars are technically termed the Narration.
3. For the folio or page of the Ledger containing the account to which each item is subsequently posted.
4. For the amount to be debited to the Ledger account named.
5. For the amount to be credited to the Ledger account named.

Q. In what order should entries be made in the columns of the Journal?

A. The following order should be observed:—

1. Enter in the first column the date of the transaction.
2. Enter in the second column the name of the account or accounts to be debited, using the abbreviation Dr.
3. Enter in the Dr. column the amount or amounts to be debited.
4. Enter in the second column the name of the account or accounts to be credited.
5. Enter in the Cr. column the amount or amounts to be credited.
6. Enter a brief narrative explaining the nature of the transaction.

Q. Is there any method of readily distinguishing the names of the accounts to be debited from the names of the accounts to be credited?

A. Yes; the names of the accounts to be debited are written close to the line separating the first and second columns, and the names of the accounts to be credited are written about an inch to the right of that line.

Journalize the following transactions of A. Merchant:—

1910.

Jan. 1. Sold goods for Cash £20.

" 3. Bought of John Smith on credit Goods value £30.

" 8. Paid Cash for Wages £5.

A.—

JOURNAL.

Date.	Particulars.	Ledger folio.	Dr.			Cr.		
			£	s.	d.	£	s.	d.
1910.								
Jan. 1	Cash Account Dr.		20	0	0			
	To Goods					20	0	0
	Amount of cash received for goods sold.							
" 3	Goods Account Dr.		30	0	0			
	To John Smith					30	0	0
	For amount of goods bought of John Smith.							
" 8	Wages Account Dr.		5	0	0			
	To Cash					5	0	0
	For amount paid for wages.							

14 POSTING FROM JOURNAL TO LEDGER

Q. How is the Journal posted to the Ledger ?

A. The Journal is posted by debiting or crediting the accounts in the Ledger which, according to the Journal entry, are to be debited or credited with the amounts entered in the Dr. and Cr. columns respectively.

Q. What method is adopted to secure easy reference at any future time from Ledger to Journal or Journal to Ledger ?

A. To secure easy reference from one book to another the folio of the account in the Ledger is *inserted at the time of posting* against the item in the Journal, and the folio of the Journal is *inserted at the time of posting* against the item in the Ledger account.

Journalize and post to the Ledger the following transactions of A. Merchant :—

1910.

- Jan. 1. Received Cash from A. Lender £50.
- " 3. Bought Goods of J. Brown on Credit £30.
- " 3. Paid for Carriage Cash £1.
- " 3. Sold Goods for Cash £3.
- " 4. Paid J. Brown Cash £10.
- " 4. Sold Goods on Credit to A. Johnson £9.

A.—

JOURNAL.

Folio 12.

1910.			£	s.	d.	£	s.	d.
Jan. 1	Cash Account Dr.	20	50	0	0			
	To A. Lender's Account . . .	21				50	0	0
	For amount of cash lent to me by A. Lender.							
" 3	Goods Account Dr.	22	30	0	0			
	To J. Brown's Account . . .	23				30	0	0
	For value of goods bought of him on credit.							
" "	Carriage Account Dr.	24	1	0	0			
	To Cash Account	20				1	0	0
	For amount paid for carriage.							
" "	Cash Account Dr.	20	3	0	0			
	To Goods Account	22				3	0	0
	For amount of cash sales.							
" 4	J. Brown's Account Dr.	23	10	0	0			
	To Cash Account	20				10	0	0
	For amount of cash paid to J. Brown.							
" "	A. Johnson's Account Dr.	25	9	0	0			
	To Goods Account	22				9	0	0
	For value of goods sold to him on credit.							

POSTING FROM JOURNAL TO LEDGER 15

LEDGER.

Folio 20.

Dr.			CASH ACCOUNT.						Cr.		
1910.			£	s.	d.	1910.			£	s.	d.
Jan. 1	To A. Lender	12	50	0	0	Jan. 3	By Carriage	12	1	0	0
" 3	" Goods	12	3	0	0	" 4	" J. Brown	12	10	0	0

Folio 21.

Dr.		A. LENDER'S ACCOUNT.						Cr.			
			£	s.	d.	1910. Jan. 1	By Cash	12	£	s.	d.
									50	0	0

Folio 22.

DR.		GOODS ACCOUNT.						CR.			
1910.			£	s.	d.	1910.		£	s.	d.	
Jan. 3	To J. Brown	12	30	0	0	Jan. 3	By Cash	12	3	0	0
						" 4	" A. Johnson	12	9	0	0

Folio 23.

Dr.		J. BROWN'S ACCOUNT.						Cr.			
1910.			£	s.	d.	1910.			£	s.	d.
Jan. 4	To Cash	12	10	0	0	Jan. 3	By Goods	12	30	0	0

16 POSTING FROM JOURNAL TO LEDGER

Folio 24.

Dr.

CARRIAGE ACCOUNT.

Cr.

1910.			£	s.	d.			£	s.	d.
Jan. 3	To Cash	12	1	0	0					

Folio 25.

Dr.

A. JOHNSON'S ACCOUNT.

Cr.

1910.			£	s.	d.			£	s.	d.
Jan. 4	To Goods	12	9	0	0					

Prove the arithmetical accuracy of the accounts by means of a Trial Balance.

A.—

TRIAL BALANCE.

Name of Account.	Ledger folio.	Debits.			Credits.		
		£	s.	d.	£	s.	d.
Cash	20	53	0	0	11	0	0
A. Lender	21				50	0	0
Goods	22	30	0	0	12	0	0
J. Brown	23	10	0	0	30	0	0
Carriage	24	1	0	0			
A. Johnson	25	9	0	0			
		103	0	0	103	0	0

Q. If there are items to be debited to several accounts and only one account to be credited, is it necessary to detail the items in both columns of the Journal?

A. No; the items will be detailed in the Dr. column, and the total amount entered in the Cr. column.

Journalize the following :—

1910.					
Feb. 1.	Bought of A. Black—		£	s.	d.
	Goods	40	0	0	
	Office Furniture	10	0	0	
	Fixtures	12	0	0	
		62	0	0	

A.—

JOURNAL.

Folio 50.

			Dr.			Cr.		
			£	s.	d.	£	s.	d.
1910.								
Feb. 1	Sundries Dr.							
"	To A. Black					62	0	0
"	Goods		40	0	0			
"	Office Furniture		10	0	0			
"	Fixtures		12	0	0			
	For the above items bought this day.							

Q. What is the meaning of the word "Sundries" ?

A. In book-keeping the word "Sundries" is used when several accounts are referred to. In the above example it comprises the several accounts for goods, office furniture, and fixtures.

Q. How would the above entry appear in A. Merchant's Ledger ?

A.—

LEDGER.

Dr.

A. BLACK'S ACCOUNT.

Cr.

		£	s.	d.	1910.		£	s.	d.
					July 1	By Sundries	50	62	0 0

Dr.

GOODS ACCOUNT.

Cr.

		£	s.	d.		£	s.	d.
1910.								
Feb. 1	To A. Black	50	40	0 0				

D.A.B.

C

OPENING ENTRIES

DR.		OFFICE FURNITURE ACCOUNT.						CR.		
1910.				£	s.	d.		£	s.	d.
Feb. 1	To A. Black	50		10	0	0				

DR.		FIXTURES ACCOUNT.						CR.		
1910.				£	s.	d.		£	s.	d.
Feb. 1	To A. Black	50		12	0	0				

Q. How could A. Merchant at any future time readily ascertain the meaning of the word "Sundries" in A. Black's Account?

A. This information would be obtained by reference to page 50 of the Journal, which would show that the item, Sundries £62, is made up of—Goods £40, Office Furniture £10, and Fixtures £12.

Q. What is the difference between the terms "Goods" and "Office Furniture"?

A. In book-keeping the term "Goods" is used when referring to things which are the subject of trading, that is, which are bought with the object of being sold at a profit. Assets such as furniture, fixtures, premises are intended to be retained permanently in the business to enable the trading to be carried on, and their values must be entered in accounts entirely separate from Goods Account.

Journalize the following in A. Merchant's books:—

Jan. 1. A. Merchant commenced business with a Capital of £1000 in cash.

A.—

JOURNAL.

1910.			£	s.	d.	£	s.	d.
Jan. 1	Cash Account Dr.		1000	0	0			
	To A. Merchant's Capital Account					1000	0	0

OPENING ENTRIES

19

Explain the reason for the above entry.

A. As cash to the amount of £1000 is received, Cash Account is debited.

As A. Merchant is the person who gives or pays the £1000 into the business, his own account is credited, and he is treated in the books as the creditor of the business for that amount. As this sum represents his capital, it is called his Capital Account.

Journalize the following in A. Merchant's book:—

Jan. 1. A. Merchant commenced business with a Capital of £1000, made up of the following items:—

	£	s.	d.
Cash	200	0	0
Goods	500	0	0
Amounts due to him from A. Brown	250	0	0
Fixtures	50	0	0
	<u>1000</u>	<u>0</u>	<u>0</u>

A.—

JOURNAL.

		Dr.			Cr.		
		£	s.	d.	£	s.	d.
1910. Jan. 1	Sundries Dr. To A. Merchant's Capital Account				1000	0	0
	Cash	200	0	0			
	Goods	500	0	0			
	A. Brown	250	0	0			
	Fixtures	50	0	0			
	Being the assets forming A. Merchant's capital at this date.						

A. Merchant commenced business on Jan. 1, 1910, with the following assets and liabilities. Find the amount of his Capital.

Liabilities.				Assets.			
	£	s.	d.		£	s.	d.
To F. Wilson	30	0	0	Cash	40	0	0
				Goods	100	0	0
				Fittings	10	0	0

OPENING ENTRIES

A. Capital being the excess of assets over liabilities, the amount of A. Merchant's capital is £120, arrived at thus—

	£	s.	d.
Assets, viz. Cash	40	0	0
Goods	100	0	0
Fittings	10	0	0
Total	150	0	0
<i>Deduct</i>			
Liabilities, viz.			
To F. Wilson	30	0	0
Amount of Capital	120	0	0

Having ascertained the amount of A. Merchant's capital, make the necessary Journal entry to record his position at the commencement of business, and post to Ledger accounts.

A.—

JOURNAL.

Folio 51.

1910.			£	s.	d.	£	s.	d.
Jan. 1	Sundries Dr.							
	To Sundries.							
	Cash	30	40	0	0			
	Goods	31	100	0	0			
	Fittings	32	10	0	0			
	F Wilson	33				30	0	0
	A. Merchant's Capital Account .	34				120	0	0
	Being assets, liabilities, and capital of A. Merchant at this date.							

LEDGER.

Folio 30.

Dr.

CASH ACCOUNT.

Cr.

1910.			£	s.	d.	£	s.	d.
Jan. 1	To Sundries	51	40	0	0			

Folio 31.

Dr.

GOODS ACCOUNT.

Cr.

1910.			£	s.	d.	£	s.	d.
Jan. 1	To Sundries	51	100	0	0			

OPENING ENTRIES

21

Folio 32.

Dr.		FITTINGS ACCOUNT.						Cr.		
1910. Jan. 1	To Sundries	51	£	s.	d.			£	s.	d.
			10	0	0					

Folio 33.

Dr.		F. WILSON'S ACCOUNT.						Cr.					
				£	s.	d.	1910. Jan. 1	By Sundries	51		£	s.	d.
											30	0	0

Folio 34.

Dr.		A. MERCHANT'S CAPITAL ACCOUNT.										Cr.		
					£	s.	d.	1910. Jan. 1	By Sundries	51		£	s.	d.
												120	0	0

Q. Why is the word "Sundries" used on the Dr. and Cr. sides of the Ledger accounts?

A. Because in this case Sundry accounts are Dr. to Sundry accounts, and as it cannot be said that one account is Dr. to or Cr. by any other particular account the word "Sundries" is used.

Q. What is the name given to Journal entries recording the position of affairs at the commencement of business?

A. Such entries are technically described as "Opening entries," because they are the entries by means of which the merchant's books are opened.

CHAPTER III.

Special Journals to record credit purchases and credit sales—Their advantages and the saving of time and labour effected—The Purchases Book—Sales Book—How kept and posted—Definitions of Purchases Book—Sales Book—Invoice.

Q. Can a merchant's accounts be properly kept by the use only of the Journal and Ledger?

A. Yes; but by using special Journals for recording transactions similar in character much time and labour may be saved.

Name two kinds of transactions for which special Journals are used.

A. Special Journals are used to record—

1. Purchases on Credit.
2. Sales on Credit.

Q. What names are given to these books?

A. Although these books are Journals they are called various names. The book in which purchases on credit are recorded is known as Purchases Book, Invoice Book, Bought Book, etc.

The book in which sales on credit are recorded is known as Sales Books, Day Book, Sales Journal, etc.

Q. How are the Purchases and Sales Books ruled?

A. These books are ruled to suit the special requirements of any particular business. The most common forms are ruled like the Journal.

Q. How is a saving of time and labour effected by their use?

A. When transactions are recorded in the Journal the accounts to be debited and credited must be stated, but this is not necessary if all the transactions recorded in a book are similar in character. Thus a purchase on credit recorded in the Journal would be entered as follows:—

Goods Account	Dr.	£	s.	d.	£	s.	d.
To A. Brown							

and two postings to the Ledger would be necessary, viz.—

1. To the Debit of Goods Account.
2. To the Credit of A. Brown's Account.

By grouping together in the Purchases Book all records of purchases on credit the above form of entry is rendered unnecessary, since Goods Account must be Dr. for all the items in the book, and this being the case the total purchases during any given period can be easily ascertained and posted to the debit of Goods Account in one sum, instead of in numerous items. Thus, if there were 500 purchases on credit, 500 postings to the credit of personal accounts would be necessary, the double-entry being completed by posting one amount to the debit of Goods Account. In this way a saving of 499 postings to Goods Account is effected by using a Purchases Book instead of the Journal.

Similarly a saving of time and labour is effected by the use of a Sales Book to record sales on credit.

Q. What other advantages are gained by using such books?

A. It is an advantage to have a record of all transactions of a similar character in one book, as future reference to any particular item is thereby facilitated. Moreover, in most businesses it would be impracticable to have in use only one book of original entry, such as the Journal, and the use of special books for Purchases and Sales is necessary in order that the labour of book-keeping can be easily and conveniently divided amongst several clerks.

Q. How would the following transactions be entered in the Purchases Book of A. Merchant?—

1910.		£	s.	d.
Jan. 1.	Bought of A. White—			
	1 doz. Hats at 24s.	1	4	0
	3 doz. Caps at 15s.	2	5	0
Jan. 3.	Bought of J. Black—			
	5 doz. Ties, assorted, at 7s. 6d.	1	17	6

A.—

PURCHASES BOOK.

Folio 1.

	Ledger folio	£	s.	d.	£	s.	d.
Jan. 1, 1910.							
A. White—							
1 doz. Hats at 24s.		1	4	0			
3 doz. Caps at 15s.	5	2	5	0			
					3	9	0
Jan. 3, 1910.							
J. Black—							
5 doz. Ties, assorted, at 7s. 6d.	6	1	17	6	1	17	6
	7				5	6	6

Q. How is the Purchases Book posted?

A. The Purchases Book is posted by entering the total amount of each invoice on the credit side of the Ledger account with the vendor, *e.g.* A. White or J. Black, and at the end of each month, or some other period, entering the total amount of all purchases to the debit of a Goods Account in the Ledger.

Show the Ledger accounts after posting the above items.

A.—

LEDGER.

Folio 5.

DR.

A. WHITE'S ACCOUNT.

CR.

£	s.	d.	1910.		P. Bk.	£	s.	d.
			Jan. 1	By Goods	1	8	9	0

Folio 6.

DR.

J. BLACK'S ACCOUNT.

CR.

£	s.	d.	1910.		P. Bk.	£	s.	d.
			Jan. 3	By Goods	1	1	17	6

Folio 7.

Cr.

Du.		GOODS ACCOUNT.							
1910.		P. Bk.	£	s.	d.		£	s.	d.
Jan.	To Sundries	1	5	6	6				

Q. Are the total purchases as shown by the Purchases Book sometimes journalized?

A. Yes; at the end of a given period the total purchases may be journalized thus—

1910.			£	s.	d.	£	s.	d.
Jan. 31	Goods Account Dr.		5	6	6			
	To Sundries					5	6	6
	For the total credit purchases during January.							

Q. How would such an entry be posted?

A. It would be posted by debiting Goods Account with the amount stated, and placing a tick against the credit item "Sundries," i.e. sundry persons, the amount having already been posted in detail from the Purchases Book to the Ledger.

Q. How would the following transactions be entered in the Sales Book of A. Merchant?—

	£	s.	d.
Jan. 3. Sold to B. Robinson—			
2 doz. Ties at 9s.	0	18	0
1 doz. Caps at 17s. 6d.	0	17	6
Jan. 4. Sold to E. Jones—			
½ doz. hats at 28s.	0	14	0

A.—

SALES BOOK.

Folio 1.

	Ledger folio.	£	s.	d.	£	s.	d.
Jan. 3, 1910.							
B. Robinson—							
2 doz. Ties at 9s.		0	18	0			
1 doz. Caps at 17s. 6d.	8	0	17	6			
						1	15
Jan. 4.							
E. Jones—							
½ doz. Hats at 28s.	9					0	14
	7					2	9
						6	

Q. How is the Sales Book posted?

A. The Sales Book is posted by entering the total amount of each sale to the debit of the customer's account in the Ledger, and at the end of each month, or other period, entering the total amount of sales to the credit of a Goods Account in the Ledger.

Show the Ledger accounts after posting the above items.

A.—		LEDGER.				Folio 8.	
DR.	B. ROBINSON'S ACCOUNT.					CR.	
1910. Jan. 3	To Goods	1	£	s. d.		£	s. d.
				1 15 6			

						Folio 9.	
DR.	E. JONES' ACCOUNT.					CR.	
1910. Jan. 4	To Goods	1	£	s. d.		£	s. d.
				14 0			

						Folio 7.	
DR.	GOODS ACCOUNT.					CR.	
			£	s. d.	1910. Jan.	£	s. d.
					By Sundries	2 9 6	

Q. Are the total sales sometimes journalized?

A. Yes; at the end of each month, or other period, the total sales may be journalized thus —

1910. Jan. 31	Sundries	Dr.	£	s. d.	£	s. d.
	To Goods Account		2	9 6		
	For total credit sales during January.				2 9 6	

The entry is posted by crediting Goods Account with the amount stated, and placing a tick against the debit item Sundries, i.e. sundry persons, the amount having already been posted in detail from the Sales Book to the debit of the customers' accounts.

Give a definition of the Purchases Book.

A. The Purchases Book is a book in which is entered particulars of the quantities, description, and prices of goods bought on credit.

Give a definition of the Sales Book.

A. The Sales Book is a book in which is entered particulars of the quantities, description, and prices of goods sold on credit.

Q. Is any further information entered in the Purchases and Sales Books?

A. Yes; information concerning the route by which the goods have been forwarded, whether they have been sent carriage paid or not, and any special terms affecting the purchase or sale are usually entered in the books named.

Q. What is meant by sending goods "carriage forward"?

A. When goods are sent "carriage forward," the cost of carriage is to be paid by the person to whom they are sent.

Q. What is an Invoice?

A. An Invoice is a statement containing particulars of the quantities, description, and prices of goods sold. It is sent by the vendor to the purchaser when the goods are despatched.

Give an example of an invoice of the goods sold by A. Merchant to B. Robinson on January 3, 1910.

A.—

Cheapside,
London, E.C.,
Jan. 3, 1910.

MR. B. ROBINSON, Brighton.

BOUGHT OF A. MERCHANT.

		£	s.	d.
2 doz. Ties . . . at	9s.	0	18	0
1 doz. Caps . . . "	17s. 6d.	0	17	6
		1	15	6
Per L. B. & S. C. Rly. Carriage forward.				

CHAPTER IV.

Cash Account—Cash Book—Purchases Book, Sales Book, Cash Book, and Ledger illustrated.

Q. How is the use of the Journal dispensed with for recording receipts and payments of Cash?

A. The use of the Journal for recording cash receipts and payments is dispensed with by entering all such items direct to the debit or credit of the Cash Account without passing the transactions through any book of first entry.

Q. What is a Cash Account?

A. A Cash Account is an account in which is recorded all receipts and payments of cash.

Q. On which side are receipts and payments respectively entered?

A. Receipts are entered on the left hand, or Dr. side.

Payments are entered on the right hand, or Cr. side.

Prepare a Cash Account and record therein the following receipts and payments of A. Merchant.

1910.		£	s.	d.
Jan. 1.	Received from J. Brown	20	0	0
" 8.	Paid A. Wilson	5	0	0
" 8.	Received for goods sold	3	0	0
" "	Paid Rent	2	0	0
" 4.	Paid for goods purchased	1	0	0

A.—

Dr.

CASH ACCOUNT.

Cr.

Receipts.				Payments.			
		£	s. d.			£	s. d.
1910.				1910.			
Jan. 1	To J. Brown	20	0 0	Jan. 3	By A. Wilson	5	0 0
" 8	" Goods .	3	0 0	" 3	" Rent .	2	0 0
				" 4	" Goods .	4	0 0

Q. What other entries in Ledger accounts are necessary to complete the record of the above transactions?

A. The following additional entries are necessary:—

J. Brown's Account must be credited with £20, he having given or parted with that sum to A. Merchant.

Goods Account must be credited with £3, to record the fact that goods have been given or parted with to that value.

A. Wilson's Account must be debited with £5, he having received that sum from A. Merchant.

Rent Account must be debited with £2, to record the fact that an expense has been incurred in respect of services (called rent) received.

Goods Account must be debited with £4, to record the fact that goods have been received to that value.

Prepare accounts containing the additional entries, and prove their arithmetical accuracy by a Trial Balance.

A.—

Dr.		J. BROWN'S ACCOUNT.						Cr.		
		£	s.	d.	1910. Jan. 1			£	s.	d.
						By Cash .		20	0	0

Dr.		GOODS ACCOUNT.						Cr.		
		£	s.	d.				£	s.	d.
1910. Jan. 4	To Cash .	4	0	0		By Cash .		3	0	0

Dr.		A. WILSON.						Cr.		
		£	s.	d.				£	s.	d.
1910. Jan. 3	To Cash .	5	0	0						

30 RELATION OF CASH BOOK TO LEDGER

DR.		RENT ACCOUNT.						CR.				
1910.				£	s.	d.				£	s.	d.
Jan. 3	To Cash			2	0	0						

TRIAL BALANCE.

		DR.			CR.		
		£	s.	d.	£	s.	d.
Cash Account		23	0	0	11	0	0
J. Brown's Account					20	0	0
Goods Account		4	0	0	3	0	0
A. Wilson's Account		5	0	0			
Rent		2	0	0			
		34	0	0	34	0	0

Q. Where is the Cash Account usually kept ?

A. The Cash Account being a Ledger account may be kept in the Ledger, but as cash transactions are usually very numerous it is found more convenient to have a special book to contain the account, such book being called the Cash Book.

Q. Does the fact that the Cash Account is kept in a separate book alter its character as a Ledger account ?

A. No ; although the account is kept in the Cash Book it still remains a Ledger account, and must be regarded as a part of the Ledger. Every entry of cash in the Cash Book is therefore one of the two entries required to record the two-fold effect of cash transactions, and the total debit and credit entries therein must be included in the Trial Balance.

From the following particulars prepare a Journal, Purchases Book, Sales Book, Cash Book, and Ledger, and prove the arithmetical accuracy of the accounts by means of a Trial Balance.

Wm. Brown commenced business on Jan. 1, 1910, with the following liabilities and assets :—

A MERCHANT'S ACCOUNTS

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Liabilities.			Assets.		
	£	s. d.		£	s. d.
To Creditors, viz.—			Cash	12	0 0
J. White.	30	0 0	Debts due from—		
A. Stead	42	0 0	A. Wilson	19	0 0
To Capital Account	90	0 0	W. Black	11	0 0
			Goods	120	0 0
	<u>162</u>	<u>0 0</u>		<u>162</u>	<u>0 0</u>

His transactions were as follows:—

		£	s.	d.
Jan. 1.	Sold Goods for Cash	7	10	0
" 3.	Paid J. White Cash	15	0	0
" "	Bought of J. White—			
	4 pieces of Cloth at £3 = £12	0	0	
	5 " " " £4 = £20	0	0	
		<u>32</u>	<u>0</u>	<u>0</u>
Jan. 4.	Bought Goods for Cash	2	10	0
" "	Received Cash from A. Wilson	19	0	0
" 5.	Sold A. Wilson—			
	1 piece of Cloth	£3	15	0
	1 " " "	5	0	0
		<u>8</u>	<u>15</u>	<u>0</u>
" "	Paid Cash to A. Stead	12	0	0
" 6.	Bought of A. Stead—			
	8 pieces of Cloth at £4 = £12	0	0	
	2 " " " £6 = £12	0	0	
		<u>24</u>	<u>0</u>	<u>0</u>
" 7.	Received Cash from W. Black	11	0	0
	Sold W. Black—			
	2 pieces of cloth at £7 10 0	15	0	0
" 8.	Paid Rent	2	0	0
" "	Wages	3	10	0

A.—

JOURNAL.

Folio 5.

1910.			£	s.	d.	£	s.	d.
Jan. 1	Sundries Dr.							
	To Sundries.							
	Cash	I	12	0	0			
	A. Wilson	11	19	0	0			
	W. Black	12	11	0	0			
	Goods	13	120	0	0			
	J. White	14				30	0	0
	A. Stead	15				42	0	0
	Capital Account	16				90	0	0
	For assets and liabilities at this date.							

PURCHASES BOOK.

Folio 10.

Jan. 3, 1910.				£	s.	d.	£	s.	d.
J. White—									
4 pieces of Cloth at £3	.	.		12	0	0			
5 " " " £4	.	.	14	20	0	0	32	0	0
Jan. 6.									
A. Stead—									
3 pieces of Cloth at £4	.	.		12	0	0			
2 " " " £6	.	.	15	12	0	0	24	0	0
			18				56	0	0

SALES BOOK.

Folio 20.

Jan. 5, 1910.				£	s.	d.	£	s.	d.	
A. Wilson—										
1 piece of cloth					3	15	0			
1 ditto				11	5	0	0	8	15	0
Jan. 7.										
W. Black—										
2 pieces of cloth at £7 10s.				12			15	0	0	
				13			28	0	0	

CASH BOOK.

Folio 1.

Dr.

CASH ACCOUNT.

Cr.

1910.		Jnl.	£	s.	d.	1910.		Led.	£	s.	d.
Jan. 1	To Sundries	5	12	0	0	Jan. 3	By J. White	14	15	0	0
		Led				Jan. 4	" Goods	13	2	10	0
" "	" Goods	13	7	10	0	" 5	" A. Stead	15	12	0	0
" 4	" A. Wilson	11	19	0	0	" 8	" Rent	17	2	0	0
" 7	" W. Black	12	11	0	0	" "	" Wages	18	3	10	0

LEDGER.

Folio 11.

Dr.

A. WILSON.

Cr.

1910.		Jnl.	£	s.	d.	1910.		C.B.	£	s.	d.
Jan. 1	To Sundries	5	19	0	0	Jan. 4	By Cash	1	19	0	0
" 5	" Goods	S.B. 20	8	15	0						

A MERCHANT'S ACCOUNTS

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Folio 12.

Dr.		W. BLACK.						Cr.			
1910.		Jnl.	£	s.	d.	1910.		C.B.	£	s.	d.
Jan. 1	To Sundries	5	11	0	0	Jan. 7	By Cash	1	11	0	0
" 5	" Goods	S.B. 20	15	0	0						

Folio 18.

Dr.		GOODS ACCOUNT.										Cr.		
1910.		Jnl.	£	s.	d.	1910.		C.B.	£	s.	d.			
Jan. 1	To Sundries	5	120	0	0	Jan. 1	By Cash	1	7	10	0			
		C.B.						S.B.						
" "	" Cash	1	2	10	0	" "	" Sundries	20	23	15	0			
		Pch.B.												
" 8	" Sundries	10	56	0	0									

Folio 14.

Dr.		J. WHITE.						Cr.			
1910.		C.B.	£	s.	d.	1910.		Jnl.	£	s.	d.
Jan. 3	To Cash	1	15	0	0	Jan. 1	By Sundries	5	30	0	0
						" 3	" Goods	Pch.B. 10	32	0	0

Folio 15.

Dr.			A. STEAD.						Cr.		
1910.		C.B.	£	s.	d.	1910.		Jnl.	£	s.	d.
Jan. 5	To Cash	1	12	0	0	Jan. 1	By Sundries	5	42	0	0
						" 6	" Goods	Pch.B. 10	24	0	0

Folio 16.

Dr.		CAPITAL ACCOUNT (Wm. Brown).							Cr.			
				£	s.	d.	1910. Jan. 1	By Sundries	Jnl. 5	£	s.	d.
										90	0	0

D.A.B.

D

Folio 17.

DR.

RENT ACCOUNT.

CR.

1910.			£	s.	d.			£	s.	d.
Jan. 8	To Cash .	1	2	0	0					

Folio 18.

DR.

WAGES ACCOUNT.

CR.

1910.			£	s.	d.			£	s.	d.
Jan. 8	To Cash .	1	3	10	0					

TRIAL BALANCE.

	Folio.	Dr.	Cr.
		£ s. d.	£ s. d.
Cash	1	49 10 0	35 0 0
A. Wilson	11	27 15 0	19 0 0
W. Black	12	26 0 0	11 0 0
Goods	13	178 10 0	31 5 0
J. White	14	15 0 0	62 0 0
A. Stead	15	12 0 0	66 0 0
Capital Account	16		90 0 0
Rent Account	17	2 0 0	
Wages Account	18	3 10 0	
		<u>314 5 0</u>	<u>314 5 0</u>

CHAPTER V.

Returns Inwards and Outwards Books—Credit and Debit Notes

Q. What are Returns Inwards ?

A. Returns Inwards are goods which have been sold and delivered, but are afterwards returned by the customer.

Q. When goods are so returned, what record is kept by the person receiving them ?

A. On receipt of the goods, particulars of the quantities, description, and invoice prices are entered in a special Journal called the Returns Inwards Book.

Q. How is the Returns Inwards Book ruled ?

A. It is ruled to correspond with the Sales Book.

Q. How is the Returns Inwards Book posted to the Ledger ?

A. Each item in the Returns Inwards Book is posted to the credit of the customer's account in the Ledger, and the double-entry is completed by posting the total of such items for any given period to the debit of a Goods Account.

Q. What acknowledgment of the receipt of the goods is sent to the customer ?

A. It is usual when goods are returned by a customer to send to him a Credit Note.

Q. What is a Credit Note ?

A. A Credit Note is a statement containing particulars of the quantities, description, and prices of goods returned by a customer and the total amount thereof, and is evidence of the fact that the customer is entitled to credit in account for the amount stated.

Give an example of a Credit Note.

A.—

CREDIT NOTE.

Cheapside,

London, E.C.,

January 4, 1910.

Messrs. BLACK & WHITE, Manchester.

Credited by

A. MERCHANT.

	£	s.	d.	£	s.	d.
5 cases returned		3	0		15	0

Q. What are Returns Outwards ?

A. Returns Outwards are goods which have been bought and received, but are afterwards returned to the vendor.

Q. What records are kept of Returns Outwards ?

A. Returns Outwards are entered in a special Journal called the Returns Outwards Book, in which are entered particulars of the quantities, description, and invoice prices of the goods.

Q. How is the Returns Outwards Book ruled ?

A. It is ruled to correspond with the Purchases Book.

Q. How is the Returns Outwards Book posted to the Ledger ?

A. Each item in the Returns Outwards Book is posted to the debit of the vendor's account in the Ledger, and the double-entry is completed by posting the totals of such items for any given period to the credit of a Goods Account.

Q. What kind of intimation of the return of the goods is given to the vendor ?

A. When the goods are returned a Debit Note is made out and sent to the vendor.

Q. What is a Debit Note ?

A. A Debit Note is a statement containing particulars of the quantities, description, and invoice prices of goods returned, and notifying the person to whom it is sent that his account in the Ledger of the sender has been debited with the amount stated.

RETURNS BOOKS

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Give a specimen of a Debit Note.

A.—

DEBIT NOTE.

Manchester,
January 8, 1910.

From BLACK & WHITE,
To Mr. A. MERCHANT.

Please note that we have forwarded this day, per L. & N. W. Ry.—

	£	s.	d.	£	s.	d.
5 cases		3	0		15	0

CHAPTER VI.

Discounts—Trade discounts—Cash discounts—How recorded and how posted.

Q. What is discount?

A. Discount may be of two kinds, viz.—

1. Trade discount.
2. Cash discount.

Q. What is a Trade Discount?

A. A Trade Discount is an allowance off the nominal price of goods bought or sold.

Q. How are trade discounts recorded?

A. Trade discounts are shown and deducted in the Purchases or Sales Book, and the resulting balances only are posted to Ledger accounts.

Q. A. Merchant sells to A. Retailer on Feb. 1, 1910, 3 dozen Chairs at 30s. per dozen, less a trade discount of 25%. How would this transaction be recorded in A. Merchant's Sales Book?

A.—

SALES BOOK.

		Feb. 1, 1910.		£	s.	d.	£	s.	d.
A. Retailer—		3 dozen Chairs at 30s.		4	10	0			
		Less Trade Discount (25%)		1	2	6			
							£	7	6

Q. How would this item be posted to the accounts in A. Merchant's Ledger?

A. The amount of the sale being in reality £3 7s. 6d., A. Retailer's account would be debited with this sum, and Goods Account would be credited with the total of this and similar items in the Sales Book during a given period.

Q. What is a Cash Discount?

A. A Cash Discount is an allowance off the amount of an account in consideration of its being paid on or before the due date.

Q. How are cash discounts recorded?

A. As cash discounts depend upon the payment of cash, and are allowed at the time such payment is made, it is convenient to have on each side of the Cash Book an extra column to record discounts allowed and discounts received.

Q. On which sides of the Cash Account are discounts allowed and received recorded?

A. Discounts allowed are recorded on the Dr. side, and discounts received are recorded on the Cr. side.

Q. As the Dr. side of Cash Account is for entries of cash received, why is discount allowed recorded on the same side?

A. As the allowance of discount is made to the person from whom the cash is received, it is convenient to record such allowance on the Dr. side of the account. Similarly, as discount is allowed by the person to whom cash is paid, it is convenient to record such allowance on the Cr. side of the account.

Explain the meaning of 10%, 7½%, 5%, 3¼%, 2½%, 1¼%.

	£	s.					
<i>A.</i> 10% means	10	0	per £100, or	200/-	per £100, or	2/-	per £1
7½%	7	10	"	150/-	"	1/6	" £1
5%	5	0	"	100/-	"	1/-	" £1
3¼%	3	15	"	75/-	"	9d.	" £1
2½%	2	10	"	50/-	"	6d.	" £1
1¼%	1	5	"	25/-	"	3d.	" £1

Prepare a Cash Book and enter therein the following transactions:—

1910.

Feb. 1. Received of A. Wilson—

Cash £14 15s; and allowed him discount 5s.

" Paid J. Blank his account of £12, less 5% discount.

Feb. 2. Received of A. Robinson—

The amount of his account, £4 10s., less 2½% discount.

" Paid E. Jones his account of £9, less 3¼% discount.

A.—

Folio 12

DR.

CASH BOOK.

CR.

		Discount allowed.			Cash received.					Discount received.			Cash paid.		
		£	s.	d.	£	s.	d.			£	s.	d.	£	s.	d.
1910.								1910.							
Feb. 1	To A. Wilson .		5	0	14	15	0	Feb. 1	By J. Black	19	0		11	8	0
" 2	" A. Robinson		2	3	4	7	9	" 2	" E. Jones	6	9		8	13	3

Q. How are the items in the cash and discount columns on the Dr. side of the Cash Book posted?

A. The items of cash and discount on the Dr. side of the Cash Book are posted to the *credit* of accounts in the Ledger.

Q. How are the items in the cash and discount columns on the Cr. side of the Cash Book posted?

A. The items of cash and discount on the Cr. side of Cash Book are posted to the *debit* of accounts in the Ledger.

Q. What further postings are required to complete the double-entry?

A. It is necessary at the end of each month, or other period, to post the total of the discount column on the Dr. side of the Cash Book to the *debit* of Discount Account in the Ledger, and to post the total of the discount column on the Cr. side of the Cash Book to the *credit* of Discount Account in the Ledger.

Q. What is the purpose of the Discount Account?

A. The purpose of the Discount Account is to show—

(a) On the Dr. side the losses incurred by reason of discounts allowed.

(b) On the Cr. side the gains accrued by reason of allowances of discounts received.

Post to Ledger accounts the items in the above Cash Book, and prepare Trial Balance.

A.—

LEDGER.

DR.

A. WILSON.

CR.

				£	s.	d.					£	s.	d.
				1910.									
				Feb. 1.			By Cash	12			14	15	0
							" Discount	"				5	0

POSTING DISCOUNTS

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Dr.			A. ROBINSON.					Cr.			
			£	s.	d.	1910. Feb. 2	By Cash .	12	£	s.	d.
							" Discount	"	4	7	9
										2	3

Dr.			J. BLACK.						Cr.		
1910.			£	s.	d.				£	s.	d.
Feb. 1	To Cash .	12	11	8	0						
	" Discount	"		12	0						

Dr.			E. JONES.			Cr.				
1910.			£	s.	d.			£	s.	d.
Feb. 2	To Cash .	12	13	9						
	„ Discount	„	6	9						

Dr.		DISCOUNT ACCOUNT.						Cr.			
1910. Feb.	To Sundries	12	£	s.	d.	1910. Feb.	By Sundries	12	£	s.	d.
				7	8					18	9

TRIAL BALANCE.

	£	s.	d.	£	s.	d.
A. Wilson				15	0	0
A. Robinson				4	10	0
J. Black	12	0	0			
E. Jones	9	0	0			
Discount Account		7	8		18	9
Cash Account	19	2	9	20	1	8
	40	10	0	40	10	0

CHAPTER VII.

Balancing accounts—How to balance the Goods Account—Stock-taking—Stock, Purchases, Sales, and Returns Accounts—Trading Account, definition—The meaning of Gross Profit—The preparation of Trading Account.

Q. What is meant by the balance of an account ?

A. The balance of an account is the difference between the totals of the Dr. and Cr. sides.

Q. What is a debit balance ?

A. A debit balance is the amount by which the total of the Dr. side of an account exceeds the total of the Cr. side.

Q. What is a credit balance ?

A. A credit balance is the amount by which the total of the Cr. side of an account exceeds the total of the Dr. side.

Q. What is the method by which accounts are balanced ?

A. The following is the method of balancing accounts :—

1. Add up both sides of the account, putting the figures on a slip of paper.
2. Find the difference.
3. Enter the difference on the lighter side of the account, calling it "To or By Balance."
4. Add up both sides of the account and enter the totals in the book.
5. If the totals agree rule the account off.
6. Bring down the balance.

Q. What is meant by bringing down the balance ?

A. Bringing down the balance means bringing forward a debit balance to the Dr. side of the account for the next period, or bringing forward a credit balance to the Cr. side of the account for the next period.

Q. What is the object of balancing accounts ?

A. The object is to show at a glance the position of an account on the date of balancing.

BALANCING ACCOUNTS

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Illustrate the above method by balancing the following account:—

DR.		JOHN BROWN.				CR.			
1910.		£	s.	d.	1910.		£	s.	d.
Jan. 1	To Goods .	45	9	2	Jan. 10	By Cash .	44	0	0
" 3	"	12	14	0	" "	" Dis. .	1	9	2
" 5	"	13	0	0	" 12	" Cash .	4	10	0

A.—

DR.		JOHN BROWN.				CR.			
1910.		£	s.	d.	1910.		£	s.	d.
Jan. 1	To Goods .	45	9	2	Jan. 10	By Cash .	44	0	0
" 3	"	12	14	0	" "	" Dis. .	1	9	2
" 5	"	13	0	0	" 12	" Cash .	4	10	0
					" 31	" Balance carried down .	21	4	0
		71	3	2			71	3	2
Jan. 3	To Balance brought down .	21	4	0					

Q. Is the above method of balancing applicable to all accounts ?

A. No ; it is not applicable to the Goods Account, because the balance of the Goods Account does not represent the value of the goods on hand at the date of balancing.

Q. How is the value of goods on hand ascertained ?

A. The value is ascertained by the process known as Stock-taking.

Q. Having ascertained the value of goods on hand by taking stock, on which side of the Goods Account is the amount entered ?

A. The value of the stock on hand is entered on the Cr. side of Goods Account, and this amount being the value of goods on hand is carried forward to the Dr. side of the account for the ensuing period.

Q. Will the Goods Account then balance ?

A. No ; the amount of the Cr. side will usually exceed the amount of the Dr. side.

Q. What will the difference then represent ?

A. The difference will then represent the gross profit, which is the difference between the cost and selling price of goods sold.

Q. Having ascertained the difference or gross profit, what entries are made ?

A. The amount of gross profit is entered on the Dr. side of Goods Account, and on the Cr. side of Profit and Loss Account.

The following is the state of A. Merchant's Goods Account on Dec. 31, 1909:—

DR.		GOODS ACCOUNT.				CR.			
1909.		£	s.	d.	1909.		£	s.	d.
Jan. 1	To Stock on hand . .	500	0	0	Dec. 31	By Sales during the year	3400	0	0
Dec. 31	To purchases during the year . .	2700	0	0					

Stock was taken on Dec. 31, and found to be worth £420. Balance the Goods Account.

A.—

DR.		GOODS ACCOUNT.					CR.				
		£	s.	d.			D.B.	£	s.	d.	
1909.					1909.						
Jan. 1	To Stock on hand . .	b/d	500	0	0	Dec. 31	By Sales .	3400	0	0	
Dec. 31	To Purchases		2700	0	0	"	" Stock on hand .	c/d	420	0	0
"	" Gross profit transferred to Profit and Loss Account .		620	0	0						
			3820	0	0			3820	0	0	
1910.											
Jan. 1	To Stock on hand . .	b/d	420	0	0						

Q. Is there any method of recording purchases, sales, and returns in the Ledger other than by entering all such transactions to the debit or credit of Goods Account ?

A. Yes; it is found in practice more convenient to keep separate accounts for—

Stock of Goods,
Purchases,
Sales,
Returns Inwards,
Returns Outwards.

Q. What is the advantage of splitting up the Goods Account in this way?

A. By this means the stock at the beginning of a period, and the total purchases, sales, and returns are more readily ascertained for the purpose of summarizing the trading results during any given period.

Q. As in practice it is found convenient to split up the Goods Account into separate accounts for Stock, Purchases, Sales, Returns, how are these separate accounts dealt with when it is desired to ascertain the Gross Profit?

A. The separate accounts for Stock, Purchases, Sales, and Returns are collected together and shown in one account, called the Trading Account.

Q. What is a Trading Account?

A. A Trading Account is an account prepared for the purpose of ascertaining the Gross Profit during any given period.

Q. How are the amounts transferred from Stock, Purchases, Sales, and Returns Accounts to Trading Account?

A. They are transferred to Trading Account by means of a Journal entry, which has the effect of closing the accounts for Stock, Purchases, Sales, and Returns.

Q. How is the value of the stock on hand at the end of a period brought into the accounts?

A. The value of the stock at the end of the period is debited to a new Stock Account and credited to Trading Account. This is done by means of a Journal entry.

On Dec. 31, 1909, the following accounts were open in A. Merchant's Ledger :—

TRADING ACCOUNT

DR.		STOCK ACCOUNT.						CR.			
1909.			£	s.	d.				£	s.	d.
Jan. 1	To Trading Account .		432	0	0						

Dr.		PURCHASES ACCOUNT.			Cr.	
1909.		£	s.	d.		£ s. d.
Mar. 31	To Sundries, as per Purchases Book	960	0	0		
Jun. 30	Ditto . .	730	0	0		
Sep. 30	"	845	0	0		
Dec. 31	"	918	0	0		

DR.		SALES ACCOUNT.				CR.			
		£	s.	d.	1909.		£	s.	d.
					Mar. 31	By Sundries, as per Sales Book .	1120	0	0
					Jun. 30	Ditto . .	912	0	0
					Sep. 30	„	1052	0	0
					Dec. 31	„	820	0	0

Dr.		RETURNS INWARDS.						Cr.			
1909. Dec. 31	To Sundries			£	s.	d.			£	s.	d.
				273	0	0					

Dr.			RETURNS OUTWARDS.					Cr.			
			£	s.	d.	1909. Dec.31	By Sundries		£	s.	d.
									192	0	0

TRADING ACCOUNT

47

At that date the stock on hand was valued at £367. Close the accounts by transfers to Trading Account, open a new Stock Account, and show the Gross Profit.

A.—

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1909.			£	s.	d.	£	s.	d.
Dec. 31	Trading Account . . . Dr.	55	4158	0	0			
	To Sundries—							
	Stock Account, Jan. 1, 1909 .	50				432	0	0
	Purchases Account . . .	51				3453	0	0
	Returns Inwards . . .	53				273	0	0
	For Amounts transferred to Trading Account.							
"	Sundries— Dr.							
	To Trading Account . . .	55				4403	0	0
	Sales Account . . .	52	3904	0	0			
	Returns Outwards . . .	54	132	0	0			
	Stock, Dec. 31, 1909 . . .	50	367	0	0			
	For transfers to Trading Account.							
"	Trading Account . . . Dr.	55	245	0	0			
	To Profit and Loss Account .	56				245	0	0
	For Gross Profit transferred.							

Folio 50.

Dr.

STOCK ACCOUNT.

Cr.

1909.		£	s.	d.	1909.		Jnl.	£	s.	d.
Jan. 1	To Trading Account .	432	0	0	Dec. 31	By transfer to Trading Account .	£	432	0	0
1910.										
Jan. 1	To Trading Account .	Jnl. 3	367	0						

Folio 51.

Dr.

PURCHASES ACCOUNT.

Cr.

1909.		£	s.	d.	1909.		Jnl.	£	s.	d.
Mar. 31	To Sundries, as per Purchases Book	960	0	0	Dec. 31	By transfer to Trading Account .	£	3453	0	0
Jun. 30	Ditto . . .	730	0	0						
Sep. 30	" . . .	845	0	0						
Dec. 31	" . . .	918	0	0						
		3453	0	0				3453	0	0

TRADING ACCOUNT

Folio 52.

DR.

SALES ACCOUNT.

CR.

1909.		Jnl.	£	s.	d.	1909.		Jnl.	£	s.	d.
Dec. 31	To transfer to Trading Account .	3	3904	0	0	Mar. 31	By Sundries, as per Sales Book		1120	0	0
						Jun. 30	Ditto .		912	0	0
						Sep. 30	" .		1052	0	0
						Dec. 31	" .		820	0	0
			<u>3904</u>	<u>0</u>	<u>0</u>				<u>3904</u>	<u>0</u>	<u>0</u>

Folio 53.

DR.

RETURNS INWARDS.

CR.

1909.		Jnl.	£	s.	d.	1909.		Jnl.	£	s.	d.
Dec. 31	To Sundries .		273	0	0	Dec. 31	By transfer to Trading Account .	3	273	0	0
			<u>273</u>	<u>0</u>	<u>0</u>				<u>273</u>	<u>0</u>	<u>0</u>

Folio 54.

DR.

RETURNS OUTWARDS.

CR.

1909.		Jnl.	£	s.	d.	1909.		Jnl.	£	s.	d.
Dec. 31	To transfer to Trading Account .	3	132	0	0	Dec. 31	By Sundries .		132	0	0
			<u>132</u>	<u>0</u>	<u>0</u>				<u>132</u>	<u>0</u>	<u>0</u>

Folio 55.

DR.

TRADING ACCOUNT.

CR.

1909.		Jnl.	£	s.	d.	1909.		Jnl.	£	s.	d.
Jan. 1	To Stock on hand .	3	432	0	0	Dec. 31	By Sales .	3	3904	0	0
Dec. 31	" Purchases	3	3453	0	0		" Returns Outwards	3	132	0	0
	" Returns Inwards .	3	273	0	0		" Stock on hand .	3	367	0	0
	" Gross Profit transferred to Profit and Loss Account .	3	245	0	0						
			<u>4403</u>	<u>0</u>	<u>0</u>				<u>4403</u>	<u>0</u>	<u>0</u>

TRADING ACCOUNT

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Dr.

PROFIT AND LOSS ACCOUNT.

Cr.

		£	s.	d.	1909. Dec. 31		Jnl.	£	s.	d.
						By Gross Profit from Trading Account.	8	245	0	0

Q. What is the effect of Returns Inwards on the amount of actual sales?

A. The effect of Returns Inwards is to reduce the amount of actual sales.

Q. What is the effect of Returns Outwards on the amount of actual purchases?

A. The effect of Returns Outwards is to reduce the amount of actual purchases.

Q. In preparing a Trading Account, what method is adopted in order to show clearly the actual amounts of purchases and sales?

A. The amount of Returns Inwards is deducted from the total amount of sales, and the amount of the Returns Outwards is deducted from the total amount of purchases.

Prepare for A. Merchant a revised Trading Account illustrating the method above described.

A.—

Dr.

TRADING ACCOUNT.

Cr.

1909. Jan. 1 Dec. 31		£	s.	d.	£	s.	d.	1909. Dec. 31		£	s.	d.	£	s.	d.
	To Stock				432	0	0		By Sales	3904	0	0			
	.. Purchases	3453	0	0					Less Returns	273	0	0			
	Less Returns	132	0	0					.. Stock				3631	0	0
	Gross Profit				3321	0	0						367	0	0
					245	0	0								
					3998	0	0						3998	0	0

CHAPTER VIII.

Profit and Loss Account—Definition—How it is prepared—Closing entries — The Balance-sheet — Order and method of stating liabilities and assets—Statements of account rendered.

Q. What is a Profit and Loss Account ?

A. A Profit and Loss Account is an account prepared for the purpose of ascertaining the net profit or loss resulting from trading during any given period.

Q. How is the Profit and Loss Account prepared ?

A. It is prepared by crediting the account with the amount of gross profit, and any other profits that may have been earned, and debiting it with the various expenses of carrying on the business. The resulting balance shows the net profit or loss.

Q. To whom does the net profit belong ?

A. The net profit belongs to the proprietor of the business, and is therefore transferred by an entry on the Dr. side of Profit and Loss Account and a corresponding entry on the Cr. side of Capital Account.

Q. If the Profit and Loss Account shows a net loss, how is the amount thereof dealt with in the accounts ?

A. The net loss is entered on the Cr. side of Profit and Loss Account and on the Dr. side of Capital Account.

Q. What effect, then, has profit or loss on capital ?

A. Capital is increased by the amount of net profit and decreased by the amount of net loss.

Q. Can capital be decreased in any other way ?

A. Yes ; by withdrawals of cash by the proprietor, which are debited to his Capital Account and credited to Cash Account.

Q. What must the debit and credit balances on Ledger accounts represent at any time ?

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Credit balances represent either Liabilities or Profits.

A. The accounts are closed by Journal entries transferring the balances thereof respectively to the debit and credit of Profit and Loss Account, such entries are called "closing entries."

A. Closing entries are Journal entries by means of which the nominal accounts in the Ledger are closed by transferring the balances thereof to Profit and Loss Account, and by means of which the Profit and Loss Account is closed by transferring the balance thereof to Capital Account.

DR.	WAGES ACCOUNT.	CR.
-----	----------------	-----

1909.			£	s.	d.				£	s.	d.
Dec. 31	To Cash		120	0	0						

Dr.	RENT ACCOUNT.	Cr.
-----	----------------------	-----

1909.			£	s.	d.			£	s.	d.
Dec. 81	To Cash		40	0	0					

DR.	OFFICE EXPENSES ACCOUNT.	CR.
-----	--------------------------	-----

1909.			£	s.	d.				£	s.	d.
Dec. 31	To Cash	.	15	0	0						

CLOSING ENTRIES

Dr.				PROFIT AND LOSS ACCOUNT.				Cr.				
			£	s.	d.	1909. Dec. 31	By Gross Profit from Trading Ac- count.	Jnl.		£	s.	d.
								3		245	0	0

A.—

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1909.		£	s.	d.	£	s.	d.
Dec. 31	Profit and Loss Account . . Dr.	19	175	0 0			
	To Sundries.						
	Wages.	16			120	0 0	
	Rent	17			40	0 0	
	Office Expenses	18			15	0 0	
	For transfers to Profit and Loss Account.						
	Profit and Loss Dr.	19	70	0 0			
	To Capital Account	20			70	0 0	
	For net profit transferred.						

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DR.			WAGES ACCOUNT.						CR.		
1909.			£	s.	d.	1909.		Jnl.	£	s.	d.
Dec. 31	To Cash	.	120	0	0	Dec. 31	By Transfer to Profit and Loss Account	6	120	0	0
			<hr/>	<hr/>	<hr/>				<hr/>	<hr/>	<hr/>

Folio 17.

DR.			RENT ACCOUNT.						CR.			
1909.			£	s.	d.	1909.			Jul.	£	s.	d.
Dec. 31	To Cash	.	40	0	0	Dec. 31	By Transfer to Profit and Loss Account	.	6	40	0	0
			<u> </u>	<u> </u>	<u> </u>					<u> </u>	<u> </u>	<u> </u>

PROFIT AND LOSS ACCOUNT

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Dr.		OFFICE EXPENSES.						Cr.	
1909. Dec. 31			£	s.	d.	1909. Dec. 31		Jnl.	£ s d.
	To Cash .		15	0	0		By Transfer to Profit and Loss Account .	6	15 0 0

Folio 19.

Dr.		PROFIT AND LOSS ACCOUNT.						Cr.	
1909. Dec. 31		Jnl.	£	s.	d.	1909. Dec. 31		Jnl.	£ s d.
	To Wages . .	6	120	0	0		By Gross Profit from Trading Account .	3	245 0 0
	„ Rent . .	6	40	0	0				
	„ Office Expenses .	6	15	0	0				
	„ Net Profit transferred to Capital Account .	6	70	0	0				
			245	0	0				245 0 0

Folio 20.

Dr.		CAPITAL ACCOUNT.						Cr.	
			£	s.	d.	1909. Jan. 1 Dec. 31		Jnl b/f	£ s d.
							By Balance	6	193 0 0
							„ Profit and Loss	6	70 0 0

Q. Having thus closed all nominal accounts, what do the remaining debit and credit balances represent ?

A. The remaining debit and credit balances represent assets and liabilities, including the Capital Account.

Q. What is a Balance-sheet ?

A. A Balance-sheet is a statement containing a summary of the debit and credit balances remaining on Ledger accounts after the Trading and Profit and Loss Accounts have been prepared and the nominal accounts have been closed, the balances being arranged in such a form as to show the financial position of a person on a given date.

Q. On which sides of a Balance-sheet are the liabilities and assets respectively shown ?

A. The liabilities are shown on the left hand, or Dr. side, and the assets are shown on the right hand, or Cr. side.

Q. In what order should the liabilities and assets be stated in a Balance-sheet ?

A. In preparing the Balance-sheet of a person it is usual to state the liabilities in the order in which he will probably be called upon to meet them, the most pressing liabilities being stated first, and the assets are shown according to the ease with which they can be converted into money, those assets which can be most easily realized being shown first.

Q. On which side of the Balance-sheet are the Dr. and Cr. balances in the Ledger respectively shown ?

A. Dr. balances are shown on the right hand, or Cr. side, of the Balance-sheet, and Cr. balances are shown on the left hand, or Dr. side, of the Balance-sheet.

From the following list of Dr. and Cr. balances taken from A. Merchant's Ledger on Dec. 31, 1909, prepare a Balance-sheet.

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Cash in hand	32	0	0			
A. Brown				143	0	0
W. White				119	0	0
Stock on hand	367	0	0			
B. Robinson	70	0	0			
E. Wilson	25	0	0			
Furniture	31	0	0			
Capital Account				268	0	0

BALANCE SHEET

55

A.—

Dr. BALANCE-SHEET OF A. MERCHANT, Dec. 31, 1903. Cr.

Liabilities.			Assets.		
	£	s. d.		£	s. d.
To Creditors, viz.—			Cash in hand	32	0 0
A. Brown . . . £143			Debtors, viz.—		
W. White . . . £119			B. Robinson . . £70		
	262	0 0	E. Wilson . . . £25		
Capital Account . . .	263	0 0		95	0 0
			Stock on hand	367	0 0
			Furniture	31	0 0
	525	0 0		525	0 0

Q. In preparing a Trial Balance is it necessary to extract from the Ledger the totals of the Dr. and Cr. sides of the accounts?

A. No; a Trial Balance can be prepared by extracting from the Ledger the balance of each account, and in practice this is usually done.

Q. How often are the balances of Personal Accounts brought down?

A. The balances of Personal Accounts are usually brought down monthly or quarterly, according to the term of credit.

Q. When payment of accounts becomes due, what document is sent by a merchant to each customer who is indebted to him?

A. The merchant sends (or renders) a statement of account showing the date and amount of each debit and credit item, and the total amount due.

From the following account in A. Merchant's Ledger prepare a statement of account to be rendered to A. Black:—

Dr.		A. BLACK'S ACCOUNT.				Cr.				
1910.		£	s.	d.	1910.		£	s.	d.	
Oct. 8	To Goods	41	8	4	Oct. 6	By Returns		3	7	0
" 7	"	4	8	2	" 31	" Balance	c/d	43	14	0
" 8	"	1	7	0						
" 13	"		7	6						
		47	1	0				47	1	0
Oct. 8	To Balance	b/d	43	14	0					

STATEMENTS

A.—

STATEMENT.

Cheapside,
London, E.C.,
Oct. 31, 1910.

MR. A. BLACK.

DR. TO A. MERCHANT.

1910.			£	s.	d.	£	s.	d.
Oct. 3	To Goods					41	3	4
" 7	"					4	3	2
" 8	"					1	7	0
" 13	"					7	6	
						47	1	0
	Credit—							
" 6	By Returns					3	7	0
						43	14	0

CHAPTER IX.

Departmental accounts—Forms of Departmental Purchases Book— Sales Book.

Q. What are departmental accounts?

A. Departmental accounts are separate Goods Accounts kept in the Ledger of a merchant who deals in different classes of goods, or whose business is divided into several departments. Their purpose is to enable the merchant to ascertain the result of trading in each class of goods, or in each department.

Q. What items are usually debited and credited to the departmental accounts?

A. Each departmental account usually contains the following:—

Debits.—Value of Stock at commencement of a period.
Purchases during the period.
Returns Inwards during the period.

Credits.—Sales during the period.
Returns Outwards during the period.
Value of Stock at end of the period.

The balance of the account represents the gross departmental profit or loss for the period, the amount of which is transferred to Profit and Loss Account.

Q. What special forms of books are necessary to facilitate the writing up of the departmental accounts?

A. It is necessary to have special forms of those books of original entry which contain records of Purchases, Sales, and Returns Inwards and Outwards. These books are provided with extra columns, which are allocated to the respective departments, the items relating to each department being entered in the departmental columns, the total amounts of which are posted to the debit or credit of the departmental accounts in the Ledger.

A. Merchant's business is divided into three departments, viz. Hats, Caps, and Hosiery. Prepare a form of Departmental Purchases Book, and enter three items therein.

4.— DEPARTMENTAL PURCHASES BOOK.

Date.	Name.	Address.	Inv. No.	Led. folio.	Total.	Hats.	Caps.	Hosiery.
1910.					£ s. d.	£ s. d.	£ s. d.	£ s. d.
June 6	A. Black	Denton	1		41 0 0	41 0 0		
" 7	Wilson & Co.	Leeds	2		9 15 0		9 15 0	
" 9	Foss & Co.	Leicester	3		12 0 0			12 0 0
					62 15 0	41 0 0	9 15 0	12 0 0
					<u> </u>	<u> </u>	<u> </u>	<u> </u>

Q. How is the Departmental Purchases Book posted?

A. The items in the total column are posted to the credit of the personal accounts with the vendors, and the double-entry is effected by posting the totals of the columns for Hats, Caps, and Hosiery to the debit of the respective departmental accounts.

Q. Why is a column provided for the invoice number?

A. As it is not usually convenient to enter particulars of the quantities, description, and prices of goods in the Departmental Purchases Book, the invoices received with the goods are numbered and preserved for future reference, and to facilitate such reference the number of the invoice is inserted against the item in the Purchases Book.

Prepare a form of Departmental Sales Book and enter three items therein.

A.— DEPARTMENTAL SALES BOOK.

Date.	Name.	Address.	Inv. copy No.	Led. follo.	Total.	Hats.	Caps.	Hosiery.
1910.					£ s. d.	£ s. d.	£ s. d.	£ s. d.
June 13	Brown Bros.	Brighton	10		12 16 0	3 5 0	7 2 0	2 9 0
" 14	A. White	Blackheath	11		9 0 0	4 3 0		11 7 0
" 15	W. Samuels	Margate	12		7 8 0		2 5 0	5 3 0
					29 4 0	7 8 0	9 7 0	12 9 0
					— — —	— — —	— — —	— — —

Q. How is the Departmental Sales Book posted?

A. The items in the total column are posted to the debit of the customers' accounts in the Ledger, and the double-entry is effected by posting the totals of the columns for Hats, Caps, and Hosiery to the credit of the respective departmental accounts.

Q. What record is kept of the particulars and prices of the goods sold?

A. When the goods are despatched an invoice containing these particulars is made out, and a copy thereof is kept and numbered for future reference, and to facilitate such reference the number of the copy invoice is inserted against the item in the Departmental Sales Book.

Q. How are the departmental Returns Inwards and Outwards recorded?

A. Returns Inwards and Outwards are recorded in books ruled in the same form as the Departmental Sales Book and Purchases Book. Returns Inwards are debited in total to the respective departmental accounts and credited in detail to the proper personal accounts. Returns Outwards are debited in detail to the proper personal accounts and credited in total to the respective departmental accounts.

Q. How is the value of stock in each department ascertained and dealt with?

A. Stock is separately taken in each department, the details being entered in a Departmental Stock Book. The total value of the stock is credited to the departmental account at the end of a period and carried forward to the debit of the account for the next period.

Give a specimen of a departmental account.

A.—

HATS DEPARTMENT.

1909.		£	s.	d.	1909.		£	s.	d.
Jan. 1	To Stock	4,540	0	0	Dec. 31	By Sales	16,780	0	0
Dec. 31	„ Purchases	12,360	0	0	„ „	„ Returns	360	0	0
„ „	„ Returns	420	0	0	„ „	„ Stock c d	5,300	0	0
„ „	„ Gross Profit, to Profit and Loss Account	5,120	0	0					
		22,440	0	0			22,440	0	0
1910.									
Jan. 1	„ Stock b/d	5,300	0	0					

CHAPTER X.

Bad debts and their treatment in the books—Insolvency—Compositions—Bankruptcies.

Q. If a debt is found to be irrecoverable, how should the debtor's account be dealt with?

A. The amount of the debt should be transferred by Journal entry to the debit of a nominal account for bad debts, the total amount of which should subsequently be transferred to the debit of Profit and Loss Account.

The following debt is found to be bad; show the entries closing the account.

DR.		A. SLEEK.			CR.	
1908.			£	s.	d.	
Dec. 31	To Balance	b/d	7	15	0	

A.—		JOURNAL.		Folio 8.	
1909.				£	s. d.
Dec. 31	Bad Debts Account . . . Dr.	7		7	15 0
	To A. Sleek	8			
	For Bad Debt written off.				7 15 0

BAD DEBTS

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LEDGER.

Dr.			A. SLEEK.			Cr.					
1908.			£	s.	d.	1909.		Jnl.	£	s.	d.
Dec. 31	To Balance	b/d	7	15	0	Dec. 31	By Bad Debts Ac- count	8	7	15	0
			7	15	0				7	15	0

DR.		BAD DEBTS.					CR.			
1909.		Jnl.	£	s.	d.			£	s.	d.
Dec. 31	To A. Sleek	8	7	15	0					

Q. What is meant by the term "Insolvency" ?

A. Insolvency is the state of being unable to meet liabilities as they become due.

Q. What is meant by a composition ?

A. An insolvent debtor sometimes gets his creditors to agree to accept a smaller sum than the amount owing in settlement of their claims. The debtor is then said to compound with his creditors, and the amount paid to the creditors is called a composition.

Q. If a debtor owes £30 and pays a composition of 15s. in the £, what amount would be received, and how would the transaction be recorded in the books ?

A. The amount received would be £22 10s., which would be entered on the Dr. side of Cash Account and posted to the credit of the debtor's account. The balance of the debt, viz. £7 10s., being irrecoverable would be credited to the debtor's account and debited to Bad Debts Account, the item being made the subject of a Journal entry.

Q. When a debtor is declared bankrupt, what entry should be made in the books of account ?

A. A note of the fact should be made at the top of the debtor's account in the Ledger.

Q. Does the bankruptcy of a debtor necessarily mean that the debt is bad and should be written off to Bad Debts Account?

A. No; the bankruptcy of a debtor means that the whole of his assets (if any) are in the hands of a trustee to realize for the benefit of all the creditors. The amount to be written off or transferred to Bad Debts Account is dependent upon the amount of dividends which may be ultimately received from the trustee of the estate.

Q. As dividends are received what entries should be made in the books?

A. The amount of the dividend should be entered on the Dr. side of Cash Account and posted to the credit of the debtor's account.

Q. When should the balance of the bankrupt's account be transferred to Bad Debts Account?

A. The balance of the account should be transferred to Bad Debts as soon as a final dividend is received, or as soon as it becomes evident that such balance is irrecoverable.

Q. Is it desirable to keep a record of bad debts?

A. Yes; a list of bad debts should be kept in a special book, which should contain all available information concerning the debtor's position, and should be examined from time to time. If the financial position of a debtor improves a statement of his account should be sent to him with a request for payment, unless he has been declared bankrupt or the debt has been compounded.

Q. If a debt has been treated as bad and is afterwards wholly or partly recovered what entries should be made in the books?

A. The amount received should be entered on the Dr. side of Cash Account and posted to the credit of the debtor's account, which should be re-opened for the purpose. A Journal entry should then be made debiting the debtor's account and crediting Bad Debts Account with the amount received.

Q. Would it not suffice in such a case to debit Cash Account and credit Bad Debts Account?

A. Such an entry would comply with the principles of double-entry, but it would not adequately record the facts. It is better to re-open the personal account and record therein the fact that an amount which was treated as a bad debt has since been recovered.

CHAPTER XI.

Trial Balance—Nature of errors disclosed and not disclosed thereby—Rectification of errors—Steps to discover cause of errors—Matters to be dealt with after agreement of Trial Balance—Stocktaking—Basis of valuation of stock—Provision for bad and doubtful debts—Depreciation—Outstanding liabilities—Payments in advance—Provision for discounts on debtors' and creditors' balance—Illustration of Trading and Profit and Loss Account and Balance-sheet after dealing with adjustments.

Q. At what stage of the book-keeper's work can a Trial Balance be prepared?

A. A Trial Balance may be prepared at any time after the postings to the Ledger have been completed, that is, after the two-fold effect of all transactions has been recorded in Ledger accounts, including the Cash and Bank Accounts.

Q. Is the agreement of the Trial Balance conclusive proof of the accuracy of the books?

A. No; the Trial Balance proves that the total of the debit entries corresponds with the total of the credit entries. There may, however, be errors in the books which are not disclosed by the Trial Balance.

Q. What kind of errors would the Trial Balance fail to disclose?

A. The Trial Balance would not disclose double or compensating errors which do not affect the agreement of the totals of the Dr. and Cr. sides of all the Ledger accounts. The following are examples of compensating errors:—

1. Errors of amount in the books of original entry which are not discovered before being posted to the Dr. and Cr. sides of the Ledger accounts; *e.g.* a sale of goods amounting to £15 entered in the Sales Book as £13.
2. Errors in posting items to wrong accounts; *e.g.* a purchase of goods from J. Brown amounting to £50 posted to the credit of J. Bream's Account.

3. Debiting one account with too much and another account with too little, the amount of the error in each case being the same; *e.g.* debiting A. Black with £15 instead of £13, and debiting B. White with £13 instead of £15.
4. Crediting one account with too much and another account with too little, the amount of the error in each case being the same; *e.g.* crediting T. Jones with £19 instead of £17, and crediting M. Wood's Account with £17 instead of £19.

Q. How would such errors be rectified?

- A. 1. A Journal entry would be made debiting the customer and crediting Sales Account with £2, the explanation of the entry being stated in the Journal.
2. J. Bream's Account would be debited and J. Brown's Account credited with £50, by Journal entry.
3. A. Black's Account would be credited with £2 and B. White's Account debited with £2, by Journal entry.
4. T. Jones's Account would be debited with £2 and M. Wood's Account credited with £2, by Journal entry.

Q. What kind of errors would be disclosed by the Trial Balance?

- A. All errors other than double or compensating errors would be disclosed. The following are examples:—
1. The omission to post an item from a book of original entry to the Ledger; *e.g.* Cash £5 received from A. Wilson entered on the Dr. side of the Cash Book, but not posted.
 2. An item posted to the wrong side of an account; *e.g.* a sale to W. Todd of goods, £12, entered in the Sales Book and posted to the credit instead of to the debit of Todd's Account.
 3. A wrong amount posted to the proper account; *e.g.* a purchase of goods, £5 4s., from T. Cave, correctly entered in the Purchases Book, but posted as £4 5s. to the credit of Cave's Account.
 4. The same item posted twice; *e.g.* a payment of £7 for wages entered on the Cr. side of the Cash Book and posted twice to the debit of Wages Account.

Q. How would such errors be rectified?

- A. 1. The item £5 would be posted from the Cash Book to the credit of A. Wilson's Account.

DISAGREEMENT OF TRIAL BALANCE 65

2. W. Todd's Account would first be debited with £12, to cancel the erroneous credit thus—

Dr.

		£	s.	d.
To amount credited in error	contra	12	0	0

The account would then be debited with £12, representing the amount of the sale, no Journal entry being required.

3. T. Cave's Account would be first debited with £4 5s. to cancel the erroneous credit, then credited with the correct amount, viz. £5 4s., no Journal entry being necessary.
4. Wages Account would simply be credited with £7, to cancel the amount debited in error.

Q. If the totals of the two columns of the Trial Balance do not agree, what steps should be taken to discover the cause of the disagreement?

A. The first step would be to verify the totals of the columns of the Trial Balance and find the amount of the difference. If such amount be large, the next step would be to ascertain whether all accounts are included in the Trial Balance, particularly the Cash and Bank Accounts. If the Trial Balance contains an item which is half the amount of the difference, it may be found that such item has been placed in the wrong column of the Trial Balance, or that an item of the same amount has been posted to the wrong side of a Ledger account.

If these preliminary steps fail, the following further steps should be taken to discover the cause of the disagreement:—

1. Check the items from Ledger accounts to Trial Balance to verify the accuracy of the figures therein, making sure that *all* Ledger Account balances are correctly included.
2. Verify the periodical postings of total purchases, sales, returns, discounts, etc., and check the totals.
3. See that all Ledger balances have been correctly brought down at the end of the period.
4. Check the cast and balances of all accounts.

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5. See that the balances outstanding at the commencement of the period were correctly entered and are "in balance."
6. Check all postings during the period by means of totals, *e.g.* see that the total purchases as per Purchases Book agrees with the total amounts credited to creditors' accounts in respect thereof, and adopt a similar method with regard to sales, returns, discounts, etc.

By these means the error will be located and eventually discovered.

Q. After the Trial Balance has been agreed what matters require to be dealt with before the preparation of the Trading and Profit and Loss Account and Balance-sheet can be proceeded with ?

A. The following matters must be dealt with after the Trial Balance has been agreed :—

1. The value of stock on hand must be ascertained.
2. Bad debts should be written off and provision made for doubtful ones.
3. A reasonable amount should be written off assets such as plant, machinery, furniture, etc., to provide for depreciation.
4. All outstanding liabilities for rent, rates, taxes, commission, etc., should be brought into the accounts.
5. All payments made in advance should be apportioned so that the accounts for each period shall only be charged with the proper proportion of the total amount paid.
6. Reserves should be made for discounts to be allowed on debtors' balances and to be received on creditors' balances.

Q. What is the proper basis of valuation of stock-in-trade ?

A. Stock-in-trade should be taken on the basis of cost or market price—whichever is lower at the date of stocktaking. For example, if goods which cost £100 can be purchased in the market for £90 they should be taken into stock at market price, viz. £90. If, however, the goods would cost in the market £110 they should be taken into stock at the cost price, viz. £100.

Q. What steps should be taken to ascertain which debts are good, doubtful, or bad ?

A. The debtors' accounts should be carefully examined and a list of overdue accounts submitted to a responsible manager

or partner, who will give directions as to which debts shall be written off, and as to the amount to be provided for doubtful ones.

Q. How is provision for doubtful debts made ?

A. Provision for doubtful debts is made by debiting Profit and Loss Account and crediting a Reserve Account. As, however, the amount is reserved to provide for future bad debts, it is usually more convenient to place the reserve on the credit side of Bad Debts Account for the next period, debiting Profit and Loss Account either direct or through the Bad Debts Account.

The following is the Bad Debts Account in A.'s Ledger on Dec. 31, 1909, at which date it is proposed to provide £100 for future bad debts ?

DR.		BAD DEBTS ACCOUNT.						CR.		
		£	s.	d.				£	s.	d.
1909.										
April 7	To A. Black .	80	0	0						
Aug. 5	" B. White	60	0	0						
Sept. 3	" M. Wade	15	0	0						

Show the account as it will appear after the entries dealing with the provision for future bad debts have been made.

A.—

DR.		BAD DEBTS ACCOUNT.						CR.		
		£	s.	d.				£	s.	d.
1909.					1909.					
April 7	To A. Black .	30	0	0	Dec. 31	By Profit and Loss .		205	0	0
Aug. 5	" B. White	60	0	0						
Sept. 3	" M. Wade	15	0	0						
Dec. 31	" Reserve . c/d	100	0	0						
		205	0	0				205	0	0
					1910.					
					Jan. 1	By Reserve b/d		100	0	0

Q. What form of Journal entry could be used in carrying out the above method ?

A. The following would be the Journal entry :—

1909.			£	s.	d.	£	s.	d.
Dec. 31	Bad Debts	Dr.	100	0	0			
	To Reserve for Bad and Doubtful Debts	and				100	0	0

The credit, instead of being posted to a separate Reserve Account, would be brought down to the credit of Bad Debts Account in the manner described.

Q. How is the amount reserved for future bad debts usually shown in the Balance-sheet ?

A. The reserve for bad debts is usually shown in the Balance-sheet by deducting the amount from the total debtors' balances thus—

DR.	BALANCE-SHEET.						CR.		
	£	s.	d.	Assets.	£	£	s.	d.	
				By Sundry Debtors	2500				
				Less Reserve for Bad					
				Debts	100				
					—	2400	0	0	

Q. What is depreciation ?

A. Depreciation is the amount by which the value of an asset is diminished during a given period.

Q. How is the value of assets such as plant, machinery, and furniture usually diminished ?

A. The value of such assets is usually diminished by wear and tear.

Q. How is depreciation of plant, machinery, and furniture dealt with in the books ?

A. The amount of depreciation is debited to Profit and Loss Account, and credited to the respective accounts for plant, machinery, etc.

Q. How are outstanding liabilities brought into the accounts ?

A. Outstanding liabilities for rent, etc., are debited to the

appropriate nominal accounts and credited to the same accounts, but in that part which will relate to the next period. The amount so credited will be shown as a liability in the Balance-sheet.

The following is the Rent Account in A.'s Ledger.

Dr.		RENT ACCOUNT.						Cr.			
				£	s.	d.			£	s.	d.
1909.											
Mar. 30	To Cash	.		12	0	0					
Jun. 28	"	.		12	0	0					
Sep. 30	"	.		12	0	0					

The Balance-sheet is prepared as at Dec. 31, when £12 is owing. Show how the Rent Account will appear after the liability has been brought to account, and the proper amount transferred to Profit and Loss Account.

A.—

DR.		RENT ACCOUNT.						CR.				
1909.			£	s.	d.	1909.			£	s.	d.	
Mar. 30	To Cash .	c.B.	8	12	0	0	Dec. 31	By Profit and				
Jun. 28	"		7	12	0	0		Loss .	48	0	0	
Sep. 30	"		16	12	0	0						
Dec. 31	" Balance due .	c/d		12	0	0						
			48	0	0				48	0	0	
							1910.					
							Jan. 1	By Balance due .	b/d	12	0	0

Q. How is the apportionment of payments in advance effected in the books?

A. The nominal account is credited with that proportion of the amount paid which relates to the next period, and the same account for the next period is debited, such debit being shown on the Cr. (or assets) side of the Balance-sheet as a "Payment in Advance."

PAYMENTS IN ADVANCE

The following is the Rates, Taxes, and Insurance Account in A.'s Ledger on Dec. 31, 1909.

DR.		RATES, TAXES, AND INSURANCE.				CR.		
1909.		£	s.	d.		£	s.	d.
Mar. 30	To Cash, Rates	15	0	0				
June 28	„ Taxes	20	0	0				
„ „	„ Rates	15	0	0				
Sept. 4	„ „	15	0	0				
„ 28	„ Insur.	12	0	0				
Dec. 15	„ Rates	15	0	0				

The insurance premium paid on Sept. 28 was for twelve months in advance. Prepare the Ledger account after the apportionment has been made.

A.—

DR.		RATES, TAXES, AND INSURANCE.			CR.			
1909.		£	s.	d.	1909.	£	s.	d.
Mar. 30	To Cash, Rates	15	0	0	Dec. 31	By proportion		
June 28	„ Taxes	20	0	0		of Insurance		
„ „	„ Rates	15	0	0		premium paid		
Sept. 4	„ „	15	0	0		in advance .	c/d	9 0 0
„ 28	„ Insur.	12	0	0	„	Profit and		
Dec. 15	„ Rates	15	0	0		Loss, balance		
						transferred .	83	0 0
		<u>92</u>	<u>0</u>	<u>0</u>			<u>92</u>	<u>0 0</u>
1910.								
Jan. 1	To Insurance							
	paid in ad-							
	vance .	b/d	9	0 0				

Q. How is provision made for discounts on Debtors' balances?

A. The total amount of discount to be allowed on outstanding Debtors' balances is debited to Discounts Account, and carried forward as a reserve thus—

RESERVES FOR DISCOUNTS

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Dr.	DISCOUNTS ACCOUNT.						Cr.
1909. Dec. 31	To Sundries .	£	s.	d.	1909. Dec. 31	By Sundries	£ s. d.
" "	" Reserve on Debtors' Balances .	110	0	0	" "	" Profit and Loss .	94 0 0
	c/d	40	0	0			56 0 0
		150	0	0			150 0 0
					1910. Jan. 1	By Reserve on Debtors' balances .	b/d 40 0 0

Q. How is such a Reserve shown in the Balance-sheet ?

A. A Reserve for Discounts on Debtors' balances should be deducted from the total of such balances in preparing the Balance-sheet. The item may be shown thus—

Dr.	BALANCE-SHEET.						Cr.
	£	s.	d.	Assets.	£	s.	d.
				By Sundry Debtors .	£1500		
				Less:—Reserve for Bad Debts. £100			
				" Reserve for Discounts. 40			
					140		
				or	1360	0	0
				By Sundry Debtors, Less Provision for Bad Debts and Discounts .	1360	0	0

Q. How is provision made for discounts on Creditors' balances ?

A. The total amount of discount to be received on the amounts due to Creditors is credited to Discounts Account, and carried forward to next account thus—

RESERVES FOR DISCOUNTS

DR.		DISCOUNTS ACCOUNT.						CR.			
1909. Dec. 31	To Sundries .		£	s.	d.	1909. Dec. 31	By Sundries .		£	s.	d.
" "	" Reserve on Debtors' balances .	c/d	110	0	0	" "	" Reserve on Creditors' balances .	c/d	94	0	0
			40	0	0	" "	" Profit and Loss .		25	0	0
									31	0	0
			<u>150</u>	<u>0</u>	<u>0</u>				<u>150</u>	<u>0</u>	<u>0</u>
1910. Jan. 1	To Reserve on Creditors' balances .	b/d				1910. Jan. 1	By Reserve on Debtors' balances .	b/d			
			25	0	0				40	0	0

Q. How is such a Reserve shown in the Balance sheet?

A. The reserve for discounts on Creditors' balances may be shown in the Balance-sheet thus—

DR.		BALANCE-SHEET.				CR.		
Liabilities.		£	£	s.	d.	£	s.	d.
To Sundry Creditors .	1200							
Less Discounts there-								
on	25							
	<u> </u>	1175	0	0				
<i>or</i>								
To Sundry Creditors, after								
allowing for Discounts .		1175	0	0				

The following Trial Balance was extracted from A. White's Ledger on Dec. 31, 1909.

FROM TRIAL BALANCE TO BALANCE SHEET 73

	Dr.		Cr.	
	£	s. d.	£	s. d.
Capital, Dec. 31, 1908			1200	0 0
Debtors	950	0 0		
Purchases	2420	0 0		
Stock, Dec. 31, 1908	872	0 0		
Machinery	350	0 0		
Bad Debts	34	0 0		
Wages	220	0 0		
Sales			3430	0 0
Creditors			1030	0 0
Rent, Rates, and Taxes	160	0 0		
Insurance	12	0 0		
Trade Expenses	32	0 0		
Cash	100	0 0		
Salaries	130	0 0		
Discounts	30	0 0		
Premises	350	0 0		
	5660	0 0	5660	0 0

The stock on Dec. 31, 1909, was valued at £960. Before preparing the Balance-sheet it was decided to make the following provisions: £30 for bad debts; £35 for depreciation of machinery; £12 for wages owing; £15 for rent due but not paid; reserve for discounts, 5% on debtors' balances and 2½% on creditors' balances; and to carry forward £5 insurance premium paid in advance.

Show all Ledger accounts affected by these adjustments, and prepare Trading and Profit and Loss Account and Balance-sheet.

A.— LEDGER ACCOUNTS.

Dr.		STOCK-IN-TRADE.				Cr.					
1908.		Jnl fol.	£	s.	d.	1909.		Jnl fol.	£	s.	d.
Dec. 31	To Trading Account .		872	0	0	Dec. 31	By Trading Account.		872	0	0
1909.	To Trading Account .		960	0	0						
Dec. 31											

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DR.

BAD DEBTS.

CR.

1909. Dec. 31		Jnl. fol.	£	s.	d.	1909. Dec. 31		Jnl. fol.	£	s.	d.
	To Sundries		34	0	0		By Profit and Loss .				
	„ Reserve	c/f	30	0	0				64	0	0
			64	0	0				64	0	0
						1909. Dec. 31	By Reserve	b/f	30	0	0

DR.

MACHINERY ACCOUNT.

CR.

1908. Dec. 31			£	s.	d.	1909. Dec. 31		Jnl. fol.	£	s.	d.
	To Balance	b/f	350	0	0		By Profit and Loss for Depreciation		35	0	0
							By Balance	c/f	315	0	0
			350	0	0				350	0	0
1909. Dec. 31	To Balance	b/f	315	0	0						

DR.

WAGES ACCOUNT.

CR.

1909. Dec. 31		C.B. fol.	£	s.	d.	1909. Dec. 31		Jnl. fol.	£	s.	d.
	To Cash		220	0	0		By Trading Account .		232	0	0
	„ Amount owing .	c/f	12	0	0				232	0	0
			232	0	0						
						1909. Dec. 31	By Amount owing .	b/f	12	0	0

FROM TRIAL BALANCE TO BALANCE SHEET 75

Dr. RENT, RATES, AND TAXES ACCOUNT. Cr.

1909. Dec. 31	To Sundry Cash Pay- ments	C.B. fol.	£	s.	d.	1909. Dec. 31	By Profit and Loss	Jnl. fol.	£	s.	d.
			160	0	0				175	0	0
	„ Rent due	c/f	15	0	0						
			175	0	0				175	0	0
						1909. Dec. 31	By Rent due	b/f	15	0	0

Dr. DISCOUNTS ACCOUNT. Cr.

1909. Dec. 31	To Balance	b/d	£	s.	d.	1909. Dec. 31	By Reserve on Creditors' Balances	Jnl. fol.	£	s.	d.
	„ Reserve on Debtors' Balances	c/f	30	0	0		„ Profit and Loss	c/f	25	15	0
			47	10	0				51	15	0
			77	10	0				77	10	0
1909. Dec. 31	To Reserve on Creditors' Balances	b/f	25	15	0	1909. Dec. 31	By Reserve on Debtors' Balances	b/f	47	10	0

Dr. INSURANCE ACCOUNT. Cr.

1909. Dec. 31	To Cash	C.B. fol.	£	s.	d.	1909. Dec. 31	By Amount paid in ad- vance	Jnl. fol.	£	s.	d.
			12	0	0		„ Profit and Loss	c/f	5	0	0
									7	0	0
			12	0	0				12	0	0
1909. Dec. 31	To Amount paid in ad- vance	b/f	5	0	0						

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TRADING AND PROFIT AND LOSS ACCOUNT.

Dr.				Dec. 31, 1909.				Cr.			
		Jnl. fol.	£	s.	d.			Jnl. fol.	£	s.	d.
1908.	To Stock		872	0	0	1909.	By Sales		3430	0	0
Dec. 31						Dec. 31	„ Stock		960	0	0
1909.	„ Purchases		2420	0	0						
Dec. 31	„ Wages		232	0	0						
„ „	„ Gross Profit	c/f	866	0	0						
			<u>4390</u>	<u>0</u>	<u>0</u>				<u>4390</u>	<u>0</u>	<u>0</u>
		Jnl. fol.									
„ „	To Salaries		130	0	0	„ „	By Gross Profit	b/f	866	0	0
„ „	„ Rent, Rates, and Taxes		175	0	0						
„ „	„ Bad Debts		64	0	0						
„ „	„ Discounts		51	15	0						
„ „	„ Trade Expenses		32	0	0						
„ „	„ Insurance		7	0	0						
„ „	„ Depreciation of Machinery		35	0	0						
„ „	„ Net Profit carried to Capital Account		371	5	0						
			<u>866</u>	<u>0</u>	<u>0</u>				<u>866</u>	<u>0</u>	<u>0</u>

Dr. A. WHITE.—BALANCE-SHEET, Dec. 31, 1909. Cr.

	£	s.	d.		£	s.	d.
To Sundry Trade Creditors less allowance for discounts	1004	0	0	By Cash	100	0	0
„ Outstanding Accounts, viz. Rent and Wages	27	0	0	„ Sundry Debtors	950	0	0
„ Capital, Dec. 31, 1908	1200	0	0	Less Reserves—			
Add Net Profit	371	5	0	For Bad Debts	30	0	0
	<u>1571</u>	<u>5</u>	<u>0</u>	For Discounts	47	10	0
					<u>77</u>	<u>10</u>	<u>0</u>
				By Stock on Hand	872	10	0
				„ Machinery	960	0	0
				Less Depreciation	350	0	0
					315	0	0
				By Premises	350	0	0
				„ Insurance paid in advance	5	0	0
	<u>2602</u>	<u>0</u>	<u>0</u>		<u>2602</u>	<u>10</u>	<u>0</u>

CHAPTER XII.

Definition of bank—Current account—Deposit account—Advantages of banking account—How opened—Cheques—Definition—Form—Parties—Order and bearer cheques—Indorsements—General and special crossings—Meaning of “not negotiable”—Bank pass-book.

Q. What is a bank?

A. A bank is an institution into which money is paid on the understanding that repayment will be made on demand or upon an agreed length of notice being given.

Q. What is a current account?

A. A current account is one to the credit of which a customer may pay in moneys at any time on the understanding that the banker will honour cheques drawn against the account, and will not pay away any part of the moneys against the wishes of his customer.

Q. What is a deposit account?

A. A deposit account is one to the credit of which a customer pays in money for an agreed period upon the terms that interest is allowed on the amount deposited.

Q. What advantages does a trader gain by keeping a banking account?

A. The advantages gained are—

1. The bank provides a safe repository for money.
2. The banker collects for his customers the amounts of all cheques, bills of exchange, etc., paid in.
3. The payment of the trader's debts is facilitated by the use of cheques.
4. In proper circumstances the banker will assist his customers by allowing them to overdraw their accounts.
5. The banker will take charge of deeds, securities, and other valuables belonging to his customers.

6. The banker may be used by the trader as a reference when opening fresh accounts, and will make, on behalf of his customers, confidential inquiries (through other bankers) concerning the financial standing of a trader.

Q. How is a banking account opened?

A. An introduction to the banker is usually obtained and an amount of cash is paid in to the credit of the account. The customer then signs the Signature Book at the bank, and receives a paying-in book and a cheque book.

Q. What is a paying-in book?

A. A paying-in book is a book which contains slips to be used by a customer when paying in money, notes, cheques, etc., to the credit of a current account.

Q. What is a cheque?

A. A cheque is an order addressed by a customer to his banker for the payment on demand of a stated sum of money to or to the order of a specified person or to bearer. Cheques are usually drawn on printed forms made up into books supplied by the banker to customers, as required. Each cheque must bear a penny stamp.

Give a specimen of a cheque.

A.—

Counterfoil.	Cheque.
No. D56134 May 15, 1910. To John Brown, Printing Account. £25 9s. 0d.	<div style="text-align: right;">Law Courts</div> <div style="text-align: right;">Branch London, May 15, 1910.</div> <div style="text-align: center;">LONDON COUNTY & WESTMINSTER BANK, LTD., 263, STRAND, W.C.</div> <div style="display: flex; justify-content: space-between;"> <div>Pay</div> <div>John Brown</div> <div>or Order.</div> </div> <div style="text-align: center;">Twenty-five pounds nine shillings.</div> <div style="text-align: right;">A. BLACK.</div> <div style="text-align: center;">£25 9s. 0d.</div>

Q. What are the names of the parties to a cheque?

A. The names of the parties are—

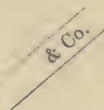
1. The Drawer, or the person who signs the cheque.
2. The Drawee, or the banker on whom the cheque is drawn.
3. The Payee, or the person to whom the amount is payable.

Q. What is the difference between a general and a special crossing?

A. A general crossing is merely the drawing of two parallel lines with or without the words "& Co." added.

A special crossing contains the name of the bank through which payment of the cheque is to be made. This may be inserted when the drawer knows the name of the payee's banker. Examples—

General crossing—


& Co.

Special crossing—


Capital & Counties
Bank.

Q. Sometimes to a general or a special crossing are added the words "not negotiable." What do these words mean?

A. "Not negotiable" written on the face of a cheque means that a person who takes the cheque cannot acquire a better title to it than was possessed by the person from whom he received it. Such a cheque should be paid into the bank by the payee for collection.

Q. What is a bank pass-book?

A. A bank-pass book is a book containing a copy of the bank's account with a customer. It is handed to the customer, when required, to enable him to check the entries and to call attention to errors (if any). The customer then returns the book to the bank.

CHAPTER XIII.

Banking account—Cash Book with discount, cash, and bank columns—Form of Cash Book where all cash is banked and all payments are by cheques—Petty cash—Imprest system—Rules relating to the Cash Book—Reconciliation statement.

Q. When money is paid into the bank what entries are made in the books?

A. Bank Account is debited and Cash Account is credited.

Q. What is the effect on the Bank Account of drawing cheques?

A. The effect is to withdraw money from the bank either for the merchant's own use or for payment to the persons named in the cheques.

Q. A merchant owes A. Robinson £10 and sends him a cheque for that amount. What entries are made in the merchant's books?

A. It will be necessary to—

Debit A. Robinson's Account, and
Credit Bank Account

with the sum of £10.

Q. In which book is Bank Account kept?

A. The Bank Account may be kept in the Ledger, but it is generally more convenient to keep it in the Cash Book.

Give a form of Cash Book containing the Bank Account?

[illegible]

Q. What are the special points to be observed in this form ?

A. The special points are that the book contains two distinct and separate accounts, viz. Cash Account and Bank Account, which are to be regarded in all respects as Ledger accounts. The discount columns are not usually treated as a Ledger account, and the totals of such columns must therefore be periodically transferred to the Discount Account in the Ledger.

Illustrate the use of the above form of Cash Book by recording therein the following transactions of A. Merchant :—

1910.

- | | | |
|------|----|----------------------------------------------------------------|
| Mar. | 1. | Commenced business with £500 in Cash. |
| " | 2. | Paid into Bank £450. |
| " | 3. | Bought Fixtures, and paid for same by Cheque, £35. |
| " | " | Bought Furniture, and paid Cash for same, £12. |
| " | 4. | Bought a Stock of Goods for £300, and paid for same by Cheque. |
| " | 5. | Sold Goods for Cash £60. |
| " | " | Paid into Bank £80. |
| " | 6. | Drew Cheque for Wages £12. |
| " | " | Paid Wages £11 18s. |

A.—

Folio 1.
CR.

CASH BOOK.

DR.

		Lead fol.	Discount.	Office Cash.	Bank.	Date.		Lead fol.	Discount.	Office Cash.	Bank.
			£ s. d.	£ s. d.	£ s. d.				£ s. d.	£ s. d.	£ s. d.
1910. Mar. 1	To Capital Ac- count	1				1910. Mar. 2	By Bank .	c			
2	" Cash .	c		500 0 0	450 0 0	" 3	" Fixtures .	2		12 0 0	35 0 0
5	" Goods .	4		60 0 0	80 0 0	" 4	" Furniture	3			300 0 0
"	" Cash .	c				" 5	" Goods .	4		80 0 0	
6	" Bank .	c		12 0 0		" 6	" Bank .	c		11 18 0	12 0 0
						" "	" Cash .	5		18 7 0	183 0 0
							" Wages .	c/d		572 0 0	590 0 0
							" Balance				
8	" Balance	b/d		18 7 0	183 0 0						

LEDGER.

Folio 1.

DR.

A. MERCHANT'S CAPITAL ACCOUNT.

CR.

			£	s.	d.	1910.		Fol.	£	s.	d.
						Mar. 1	By Cash	1	500	0	0

Folio 2.

DR.

FIXTURES ACCOUNT.

CR.

			£	s.	d.				£	s.	d.
1910.		C.B.	£	s.	d.						
Mar. 3	To Bank	1	35	0	0						

Folio 3.

DR.

FURNITURE ACCOUNT.

CR.

			£	s.	d.				£	s.	d.
1910.		C.B.	£	s.	d.						
Mar. 3	To Cash	1	12	0	0						

Folio 4.

DR.

GOODS ACCOUNT.

CR.

			£	s.	d.	1910.		C.B.	£	s.	d.
1910.		C.B.	£	s.	d.	1910.		C.B.	£	s.	d.
Mar. 4	To Bank	1	300	0	0	Mar. 5	By Cash	1	60	0	0

Folio 5.

Dr.		WAGES ACCOUNT.						CR.		
		C.B.	£	s.	d.			£	s.	d.
1910.										
Mar. 6	To Cash	1	11	13	0					

TRIAL BALANCE.

						Led. folio.	Dr.			Cr.		
							£	s.	d.	£	s.	d.
Capital Account	.	.	.	.	.	1				500	0	0
Fixtures	"	.	.	.	.	2	35	0	0			
Furniture	"	.	.	.	.	3	12	0	0			
Goods	"	.	.	.	.	4	300	0	0	60	0	0
Wages	"	.	.	.	.	5	11	13	0			
						C.B.						
Cash	"	.	.	.	.	1	18	7	0			
Bank	"	.	.	.	.	1	188	0	0			
							560	0	0	560	0	0

Q. Is it always desirable to allow money received from customers to remain in the office and to be used to defray expenses, etc.?

A. No; it is a good rule to pay all moneys into the bank as and when received, and to make all payments (other than small petty payments) by cheques drawn on the Bank Account.

Give a form of Cash Book which would be suitable where such a practice is adopted?

A.—

Dr.		CASH BOOK.						CR.		
		Dis- count.	Details.	Bank.				Dis- count.	Details.	Bank.
		£ s. d.	£ s. d.	£ s. d.	£ s. d.			£ s. d.	£ s. d.	£ s. d.

Q. What are the special points to be observed in this form?

A. The special points are—(1) as all cash is paid into the bank, all cash received is at once debited to the Bank Account, and a Cash Account is not necessary, and (2) as all payments are by cheques every payment must be credited to the Bank Account. The Details column is intended for the daily items, the totals of which are entered in the Bank column.

Illustrate the use of this form by recording the following transactions in the Cash Book:—

Jan. 1.	Paid into Bank	£500.
" 2.	Paid Furniture Account	£40.
" "	Received from A. White	£50.
" "	" " B. Black	£42.
" 4.	Paid Wages	£5.
" "	" A. Wilson	£13, and received allowance of 10s. discount.

CASH BOOK WITH BANK COLUMNS

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A.---
Dr. CASH BOOK. Cr.

	Discount.	Details.	Bank.		Discount.	Details.	Bank.
	£ s. d.	£ s. d.	£ s. d.		£ s. d.	£ s. d.	£ s. d.
Jan. 1 To Capital Account				Jan. 1 By Furniture Account			
" 2 " A. White		50 0 0	500 0 0	" 4 " Wages		5 0 0	
" " B. Black		42 0 0	92 0 0	" " A. Wilson	10 0 0	18 0 0	
							18 0 0

of the Petty Cash Book are ascertained, and a Journal entry made as follows :—

	£	s.	d.	£	s.	d.
Sundries Dr.						
To Petty Cash Account.						
Carriage						
Travelling						
Stationery and Printing						
Postages						
Office Expenses						
Ledger Accounts						
For Disbursements as per Petty Cash Book.						

Petty Cash Account is thus credited with the total disbursements, and the nominal accounts for Carriage, Travelling, Stationery and Printing, Postages, and Office Expenses are debited.

With regard to the item "Ledger Accounts," this is the total of the column under that heading in the Petty Cash Book, the items in which should be posted to the debit of the personal accounts as soon as the payments are made. This having been done the item in the Journal will not require posting, and will therefore be ticked.

Q. What is meant by the Imprest System of dealing with petty cash?

A. Under the Imprest System a cheque for a round sum of, say, £10 is in the first instance drawn in favour of the petty cashier, the amount of the cheque being entered in the Cash Book to the credit of Bank, and posted to the debit of Petty Cash Account. The petty cashier records all payments in a Petty Cash Book. At regular periods the total of the petty cash payments is ascertained, the items are checked with the vouchers, and a cheque is drawn for the exact amount disbursed, thus restoring the amount of petty cash to the original amount of the imprest.

Give a form of Petty Cash Book containing items illustrating the application of the Imprest System.

IMPREST SYSTEM

A.— PETTY CASH BOOK: IMPREST SYSTEM.

Cash-received.	Date.	Particulars.	Voucher No.	Analysis of cash paid.						Ledger items.	
				Total cash paid.	Carriage.	Traveling.	Stationery and printing.	Postages, etc.	Office expenses.	Led. fol.	Amount.
£ s. d.				£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.		£ s. d.
10 0 0	Jan. 1	To Cash	C.B. 1								
	" 3	By Stationery	1	0 15 0			0 15 0				
	" "	" Postages	2	0 10 0				0 10 0			
	" 4	" " A. Wilson	3	0 5 0	0 5 0						
	" "	" " L. & N. W. Ry.	4	0 12 6		0 12 6					
	" 12	" " A. Black	5	0 2 6	0 2 6						
	" "	" Stationery	6	0 10 0							
	" 16	" " A. Wilson	7	0 4 0							
	" 20	" Postages	8	0 9 0		0 9 0	0 4 0				
	" 31	To Cash	C.B. 5	0 5 0				0 5 0			
3 13 0		Monthly Totals		3 13 0	0 7 6	1 1 6	0 19 0	0 15 0			
		By Balance down		10 0 0							
13 13 0				13 13 0							
10 0 0	Feb. 1	To Balance down									

Q. How are petty cash disbursements out of imprest brought to account?

A. As a cheque is drawn for the exact amount disbursed an entry is made in the Cash Book as under—

Cr.

		Discount.			Details.			Bank.		
		£	s.	d.	£	s.	d.	£	s.	d.
Jan. 31	By Petty Cash Disbursements, viz.—									
	Carriage					7	6			
	Travelling				1	1	6			
	Stationery and Printing					19	0			
	Postage, etc.					15	0			
	Ledger Accounts					10	0			
								3	18	0

The items are then posted direct from Cash Book to the debit of the nominal accounts for Carriage, Travelling, etc. The item "Ledger Accounts" having been posted from the Petty Cash Book will be merely ticked. No entry is made in the Petty Cash Account unless the amount of imprest is increased. This account shows the amount in the hands of the petty cashier, which is the same at the commencement and at the end of each period.

Formulate a few rules to be observed by the person who is responsible for keeping a proper account of all cash received and paid.

4. The following rules should be observed by person who keeps the Cash Book:—

1. All cash, cheques, etc., received should be entered in the Cash Book and paid into the bank as soon as convenient.
2. All receipts should be issued from a specially printed counterfoil Receipt Book.
3. Vouchers should be obtained for all payments, if possible.
4. All payments of £2 and upwards should be made by cheques.
5. All payments of sums less than £2 should be made out of Petty Cash, which is to be kept on the Imprest System.
6. The Petty Cash Book should be examined with the vouchers at least once a month, and a cheque drawn for the total amount of the disbursements.

7. All wages and salaries sheets should be certified as correct by a responsible person before the payments are made.
8. The balance at the bank as shown by the Cash Book should be periodically agreed with the balance as shown by the Bank Pass Book, and in case of disagreement a Reconciliation Statement should be prepared and entered in a book provided for the purpose.

Where practicable, it is advisable that the cashier should have nothing to do with posting to the Ledgers, nor with the rendering of statements of account to customers.

Q. For what reasons would the balance at the bank as shown by the Cash Book differ from the balance as shown by the Bank Pass Book?

A. The Cash Book balance would seldom agree with the Bank Pass Book for the following reasons:—

1. Cheques may have been drawn in payment of accounts and entered in the Cash Book, but not in the Bank Pass Book, owing to their not having been presented to the bank for payment prior to the date upon which the two books are compared.
2. Country or foreign cheques may have been paid into the bank and entered in the Cash Book, but not credited in the Bank Pass Book, owing to their not having been cleared, *i.e.* owing to their value not having been received by the bank.
3. Charges made by the bank for collecting drafts, etc., may not have been entered in the Cash Book.

Q. What is a Reconciliation Statement and how is it prepared?

A. A Reconciliation Statement is a statement which shows the cause of the difference between the balances of the Cash Book and Bank Pass Book on any given date. It is prepared by checking the items in the Pass Book with the entries in the Cash Book, and making a list of those items on either side of each Book which are not ticked. The unticked items in the Pass Book will represent bank charges, which should at once be entered in the Cash Book. The items in the Cash Book which are not ticked will represent cheques drawn but not debited, and cheques paid in but not credited in the Bank Pass Book.

BANK RECONCILIATION STATEMENT

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Gives a form of Reconciliation Statement.

A. The following is a form of statement reconciling the Bank Pass Book and Cash Book balances :—

	£	s.	d.	£	s.	d.
Balance as per Bank Pass Book				1242	7	6
Add Cheques paid in but not credited, viz.—						
A. Wilson	43	4	6			
W. Thompson	16	3	2			
				59	7	8
				1301	15	2
Less Cheques drawn but not debited—						
M. Wood	71	5	0			
J. Bloom	40	8	7			
				111	8	7
Balance as per Cash Book				1190	6	7

CHAPTER XIV.

Bills of exchange—Definition, advantages, negotiability—Inland bills—Stamp duties—Parties—Acceptance—General and qualified—Dishonour by non-acceptance—Indorsements—Due date—Days of grace—Presentation—Effect of unreasonable delay—Holder's duty when bill dishonoured—Liabilities of parties—Noting—Holder in due course—Forged indorsement.

Q. What is a bill of exchange ?

A. A bill of exchange is legally defined as—

- (a) an unconditional order in writing
- (b) addressed by one person to another
- (c) signed by the person giving it
- (d) requiring the person to whom it is addressed
- (e) to pay
- (f) on demand or at a fixed or determinable future time
- (g) a sum certain in money
- (h) to or to the order of a specified person or to bearer.

Q. What are the uses and advantages of bills of exchange ?

A. The following are some of the uses and advantages of bills :—

1. They fix the time when a debt is to be paid.
2. They are negotiable instruments, and may be used by different holders to settle a number of debts, thus avoiding the necessity for transmitting bullion.
3. They may, subject to an allowance for discount, be immediately sold for cash.
4. They afford conclusive proof of indebtedness in the event of non-payment on the part of the person or persons liable.

Q. What is a negotiable instrument ?

A. A negotiable instrument is a document of title the ownership of which may be passed from one person to

A. An affixed stamp on a bill of exchange is permissible only when the duty imposed is 1*d.* When the duty exceeds 1*d.* an impressed stamp is necessary.

Q. How many parties are there to a bill of exchange ?

A. There are three parties to a bill of exchange, viz.—

1. The drawer, *i.e.* the person who draws the order.
2. The drawee, *i.e.* the person to whom the order is addressed.
3. The payee, *i.e.* the person to whom the amount of the bill is in the first instance payable.

Q. What action is necessary on the part of the drawee to render him liable to pay the amount of the bill ?

A. Acceptance of the bill is necessary to render the drawee liable on the bill.

Q. What is the definition of acceptance ?

A. Acceptance is the signification by the drawee of his assent to the order of the drawer. The signature of the drawer across the face of the bill is sufficient to signify his willingness to comply with the terms of the bill.

Q. How many kinds of acceptance are there ?

A. There are two kinds of acceptance, viz.—

1. General.
2. Qualified.

Q. What is a general acceptance ?

A. A general acceptance is one which assents without qualification to the order of the drawer.

Q. What is a qualified acceptance ?

A. A qualified acceptance is one which varies in express terms the effect of the bill as drawn.

Q. How may an acceptance be qualified.

A. An acceptance may be qualified in five different ways, viz. it may be—

1. Conditional, that is, an acceptance dependent upon a condition stated in the acceptance, *e.g.* "Accepted subject to delivery of bills of lading."
2. Partial, that is, an acceptance to pay a part only of the amount for which the bill is drawn, *e.g.* a bill drawn for £120, and an acceptance as follows : "Accepted for £85 only."
3. Local, that is, an acceptance to pay at a particular place, and there only, *e.g.* "Accepted payable at the London County and Westminster Bank *only*." An

acceptance "payable at the London County and Westminster Bank" is a general acceptance.

4. Qualified as to time, *e.g.* when a bill is drawn at one month, and the acceptance is : "Accepted, payable at three months."
5. An acceptance of some one or more of the drawees, but not of all, *e.g.* a bill drawn on X., Y., and Z. and accepted by X. and Y. only.

Q. Is acceptance of a bill necessary before it can be negotiated ?

A. No ; a bill can be negotiated before acceptance.

Q. In such a case who would be liable to pay the amount in the event of non-acceptance on the part of the drawee ?

A. The drawer would be primarily liable, but the holder of the bill would have the right to claim payment from any of the indorsers.

Q. What is meant by the dishonour of a bill ?

A. Dishonour of a bill of exchange means failure on the part of the drawee to accept or to pay a bill in accordance with its terms.

Q. Is the holder of a bill bound to take a qualified acceptance ?

A. No ; the holder of a bill may refuse a qualified acceptance, and may treat the bill as dishonoured by non-acceptance.

Q. If the bill is treated as dishonoured, what must the holder do ?

A. The holder must forthwith give notice of dishonour to the drawer and indorsers of the bill.

Q. May the holder of a bill take a qualified acceptance without the consent of the drawer and indorsers ?

A. If the holder takes a qualified acceptance without the express or implied consent of the drawer and indorsers, such drawer and indorsers are discharged from their liability on the bill.

Q. What is an indorser of a bill of exchange ?

A. An indorser is a person who, having possessed the right to be paid the amount of a bill drawn payable to order, has transferred that right to some one else, called the indorsee, by writing (or indorsing) his name on the back of the bill.

Q. When is indorsement necessary to negotiate a bill ?

A. Indorsement is necessary when a bill is made payable to some person or his order. A bill payable to bearer does not require indorsement.

Q. What is necessary, apart from the signature, to complete the indorsement of a bill ?

A. Indorsement of a bill of exchange is not completed until both indorsement and delivery have taken place.

Explain the different ways in which a bill may be indorsed.

A. A bill of exchange may be indorsed in five ways, viz.—

(1) Indorsement in blank, *i.e.* the signature of the indorser only, as : “ B. Robinson.”

(2) Special Indorsement, *i.e.* one which specifies the name of the person to whom the rights in the bill are transferred, as : “ Pay A. Jones
or order.
B. Robinson.”

(3) Restrictive Indorsement, *i.e.* indorsement in favour of some other person only, as :

“ Pay A. Jones
only.
B. Robinson.”

(4) Indorsement “ *Sans recours* ” (or without recourse), *i.e.* one which negatives the liability of the indorser to all subsequent indorseees, as :

“ Pay A. Jones
or order.
B. Robinson,
Sans recours.”

(5) Facultative Indorsement, *i.e.* where the indorser waives some right to which he is entitled, as :

“ Pay A. Jones,
or order.
Notice of dishonour waived.
B. Robinson.”

Q. What is the effect of a blank indorsement ?

A. The effect of such an indorsement is to make the bill payable to bearer.

Q. What is an allonge ?

A. An allonge is a slip of paper attached to a bill of exchange to provide room for further indorsements for which there is no space left on the back of the bill.

Q. Why is it important that a bill, not payable on demand, should be dated ?

A. It is important that such a bill should be dated in order that the date of payment may be determined.

Q. If a bill be undated what may the holder do ?

A. Any holder of an undated bill of exchange may insert the true date of issue or acceptance, and a mistake of date made in good faith will not invalidate the bill.

Q. What are days of grace ?

A. Days of grace are three days added to the term of a bill of exchange for the purpose of determining the day on which it falls due, the bill being due and payable on the last day of grace.

Q. What would be the due date of payment of a bill of exchange dated March 1, 1910, and accepted payable three months after date ?

A. The due date of payment would be June 4, 1910.

Q. What is the duty of a holder when payment of a bill becomes due ?

A. When a bill becomes due it is the duty of the holder to present it for payment. If a place for presentation is specified, it must be presented at that place, otherwise it must be presented at the address of the acceptor.

Q. How are bills usually accepted ?

A. Bills are usually accepted payable at the acceptor's bankers, who receive authority from him to meet (*i.e.* pay) the bill at maturity (*i.e.* when it becomes due).

Q. What is the effect of unreasonable delay in presenting a bill for payment ?

A. Unreasonable delay in presenting a bill will discharge the drawer and the indorsers from their liability, but not the acceptor.

Q. If a bill be dishonoured by non-payment on the part of the acceptor, what is the duty of the holder of the bill ?

A. The duty of the holder of a dishonoured bill is to give notice to all the parties whom he proposes to hold liable on the bill.

Q. What are the liabilities of the parties to a bill of exchange ?

A. The acceptor of a bill is primarily liable on it, but in the

event of dishonour the holder has a right of action against the other parties to the bill. He may sue the drawer and every indorser of the bill. If his immediate indorser pays the amount that indorser can sue the drawer or any previous indorser. Usually the drawer takes up the bill and exercises his rights against the acceptor.

Q. What is meant by "noting a bill"?

A. "Noting a bill" means a note written on the bill by a Notary Public to the effect that acceptance or payment of the bill has been refused.

Q. Is it legally necessary to note an inland bill?

A. No; it is not legally necessary, but it is usually done in order to avoid any question concerning the due presentation and the dishonour of the bill.

Q. If a bill has been negotiated in an irregular manner, can the holder obtain payment of the amount?

A. The holder of such a bill can recover the amount if he can prove that he is a holder in due course.

Q. What is a holder in due course?

A. A holder in due course is one who takes a bill complete and regular on the face of it, before it is overdue, without notice that it has been previously dishonoured, if such is the fact, in good faith and for value and without notice of any defect in the title of the person who negotiated it.

Q. Can a holder in due course recover the amount of a bill which contains a forged indorsement?

A. No; payment cannot be obtained of a bill on which a previous indorsement is forged or unauthorized. Such a bill must be restored to the rightful owner.

CHAPTER XV.

Foreign bills of exchange—Usances—Short bills—Short exchange—Long exchange—Stamp duties—Referees in case of need—Protest—Supra protest—Dishonour by non-acceptance or non-payment.

Give a specimen of a foreign bill of exchange.

A. The following is a specimen of a foreign bill—

Exchange for 25,000 francs.

London,

May 2, 1910.

At forty days after sight of this first of exchange (second and third of the same tenor and date unpaid) pay to the order of M. Henri Goubet twenty-five thousand francs, for value received, and place the same to account as advised.

ARTHUR WILSON.

To

M. B. Gramont,
Paris.

Payable at —

Q. What is meant by "At forty days after sight"?

A. "At forty days after sight" means that the bill is payable forty-three days after it has been presented to the drawee for acceptance. The three days added are the days of grace.

Q. What is the meaning of the term "Usance"?

A. By the term "usance" is meant the customary time at which bills are made payable in a particular country. Days of grace are added to the usance.

Q. What is meant by "this first of exchange (second and third of the same tenor and date unpaid)"?

A. A foreign bill is usually drawn in a set of three, the object being to prevent delay in the event of the loss or mis-carriage of any of the parts, and also to facilitate the negotiation of the bill. Each copy of the set is called a "via," and is of equal validity with either of the others until one is accepted

or paid. On arrival at their destination all three may be fastened together and form one bill, or the two unaccepted parts may be withdrawn from circulation.

Q. What are short bills?

A. Short bills are bills of exchange payable at sight, or in three to seven days. Such periods are called "short exchange." Long exchange is a term applied to bills drawn at sixty days or upwards.

Q. What are the stamp duties on foreign bills?

A. There are two rates of duty for foreign bills, viz.—

1. A foreign bill drawn in the United Kingdom and payable abroad, or drawn abroad and payable in the United Kingdom, is stamped as an inland bill.
2. A foreign bill, which is both drawn and payable *out* of the United Kingdom, but is actually paid, indorsed, or negotiated *in* the United Kingdom, is stamped as follows:—

When the amount does not exceed £50 the rates are the same as for an inland bill.

When the amount exceeds £50, but does not exceed £100, the stamp duty is 6*d.*

When the amount exceeds £100 the duty is 6*d.* for each additional £100 or fractional part of £100.

Q. When must a foreign bill be stamped?

A. A foreign bill should be stamped according to the law of the place of issue. It must, however, be stamped with an adhesive stamp of the proper value before it can be negotiated in the United Kingdom.

Q. What is meant by "a referee in case of need"?

A. "A referee in case of need" is a person to whom the holder of a bill may resort in case of dishonour by non-acceptance or non-payment by the drawee. The name of such person is stated on the bill, and may be inserted by the drawer or any indorser.

The usual form is—

In case of need apply to

X. Y. & Co.

A.B.

Q. What is meant by "protesting a bill"?

A. The protesting of a bill follows the noting upon which the protest is based. The protest is a formal notarial certificate

attesting the dishonour of a bill; but when a Notary Public is not available, the protest may be made by any respectable householder in the presence of two witnesses.

Q. What are the requisites of a protest?

A. A protest must contain—

1. The names of the parties for whom and against whom the bill is protested,
2. The place and date of protest,
3. A statement that acceptance or payment has been demanded by the notary, the answer (if any) given, or a notification of the fact that no answer was given, or that the drawee (or acceptor) could not be found,
4. A reservation of rights against all the parties liable.

It must be signed and sealed by the notary, and must be stamped. Where the duty on a bill does not exceed one shilling, the stamp required is the same as that of the bill; otherwise the stamp required is one shilling.

Q. What is the duty of the holder of a foreign bill when acceptance is refused by the drawee?

A. The holder's duty is to have the bill noted and protested for dishonour by non-acceptance. He may then resort to the referee in case of need, who may accept the bill for the honour of any party who has become liable thereon. Such acceptance is called an "acceptance *suprà* protest."

Q. What is the duty of the holder of such a bill when payment becomes due?

A. The holder's duty is to present the bill again to the drawee for payment. If payment be refused the bill should be again noted and protested for dishonour by non-payment. The holder will then present the bill for payment by the acceptor for honour, *i.e.* the referee in case of need.

CHAPTER XVI.

Promissory notes—Definition—Form—Stamp duties—Parties—Negotiability—Joint and joint and several notes—Bank notes—Abbreviations in connection with bills—Definitions of draft—Acceptance—Bank Post Bill.

Q. What is a promissory note?

A. A promissory note is an unconditional promise in writing made by one person to another signed by the maker engaging to pay on demand or at a fixed or determinable future time a sum certain in money to or to the order of a specified person or to bearer.

Give a specimen of a promissory note for £120, drawn by B. White in favour of A. Black, and payable three months after date.

A.—

£120.

London,
May 3, 1910.



Three months after date I promise to pay A. Black or order the sum of one hundred and twenty pounds for value received.

B. WHITE.

Q. What are the stamp duties on promissory notes?

A. The stamp duties on promissory notes are the same as those on bills of exchange, except that the duties are *always* according to the amount of the note, whether payable on demand or otherwise. Thus, a bill of exchange for £1000 payable on demand would require a penny stamp, but a promissory note for £1000 payable on demand would require a 10s. stamp.

Q. How many parties are there to a promissory note?

A. There are two parties, viz.—

1. The maker.

2. The payee.

The maker is primarily liable, and occupies the position of the acceptor of a bill.

Q. Is a promissory note a negotiable instrument ?

A. Yes; the rules relating to the negotiability of a promissory note are the same as those affecting bills of exchange.

Q. What is a joint promissory note ?

A. A joint promissory note is one made by two or more parties who are jointly liable thereon.

Q. What is a joint and several promissory note ?

A. A joint and several promissory note is one made by two or more parties, who become jointly and severally liable thereon.

Q. What is the distinction between a joint and a joint and several promissory note ?

A. The distinction is that in the case of a joint note the promise is made by two or more, and is a promise by the whole number, but not by each; while in the case of a joint and several note the promise is made by the whole number and by each party individually.

Q. What is a bank note ?

A. A bank note is a promissory note made by a banker and payable on demand.

Q. What abbreviations are used in connection with bills of exchange ?

A. The following are some of the abbreviations :—

B/E = Bill of Exchange.

P/N = Promissory Note.

B/R = Bill Receivable.

B/P = Bill Payable.

B/D = Bank Draft.

B.P.B. = Bank Post Bill.

D/D = Draft on Demand.

a/d = After date.

d/d = Days after date.

d/s = Days after sight.

Sola = A Single bill and not one of a set.

Q. What is a Draft ?

A. "Draft" is a term applied to a bill of exchange before it has been accepted by the drawee.

Q. What is an Acceptance ?

A. An Acceptance is a term applied to a bill of exchange after it has been accepted by the drawee.

Q. What is a Bank Draft ?

A. A Bank Draft is a bill of exchange drawn by a banker on one of his agents or correspondents.

Q. What is a Bank Post Bill ?

A. A Bank Post Bill is a bill of exchange issued by the Bank of England, and payable not less than seven days after date. Such bills are issued in amounts from £10 to £1000, and no commission is charged.

Q. What are the points of difference between Bills of Exchange and Promissory Notes ?

A. The principal points of difference are :—

1. As to parties—

A bill of exchange has three parties.

A promissory note has only two.

2. As to stamp duties—

A bill of exchange payable on demand, at sight, or three days after sight, requires only a penny stamp irrespective of the amount for which the bill is drawn.

A promissory note requires an *ad valorem* stamp whether it is made payable on demand or otherwise.

A bill of exchange is an order drawn by a creditor on a debtor, whereas a promissory note is a promise drawn by a debtor in favour of a creditor.

CHAPTER XVII.

Bills Receivable Book, how kept and posted—Collection of bills—Dishonoured bills—Renewed bills—Retiring bills—Discounting bills—Bills Payable Book, how kept and posted—Accommodation bills.

Q. What is a Bill Receivable?

A. A Bill Receivable is one the amount of which a person is entitled to receive.

Q. What is a Bill Payable?

A. A Bill Payable is one which has been accepted by a person and the amount of which he is therefore under obligation to pay.

Q. Is there any difference in form between a Bill Receivable and a Bill Payable?

A. No; all bills of exchange are Bills Receivable to those entitled to receive the amounts, and Bills Payable to those liable to pay the amounts.

Q. How are Bills Receivable recorded in the books of a merchant?

A. When a Bill Receivable is received by a merchant particulars of the bill are entered in a special Journal called the Bills Receivable Book, which may be ruled as under—

BILLS RECEIVABLE BOOK.

No. of bill.	Date received.	From whom received.	By whom drawn.	Acceptor.	Where payable.	Date of Bill.	Term.	Date due.	Ledger Fol.	Discount.	Amount of Bill.	How disposed of.
	1910.									£ s. d.	£ s. d.	
1	May 8	A. Black	W. Wilson	A. Jones	London	May 4	3 mths.	Ag. 2	5		50 0 0	Paid
2	.. 22	M. Rhodes	M. Wade	H. Roose	Manchester	.. 21	2 ..	July 24	16		60 0 0	..
									3		110 0 0	

Q. How is the Bills Receivable Book posted to the Ledger?

A. Each item in the Bills Receivable Book is posted to the credit of the account with the person from whom the bill is received, and at the end of each month (or other period) the total amount of bills received as shown by the Bills Receivable Book is posted to the debit of Bills Receivable Account.

If the person from whom the bill is received is entitled to a cash discount the amount of discount is entered in the discount column of the Bills Receivable Book and posted to the credit of his account, the total of such discounts being periodically posted to the debit of Discounts Account in the Ledger.

Q. Is it necessary to journalize the totals of Bills Receivable?

A. Sometimes the total amount is posted direct from Bill Book to Ledger, but a Journal entry may be made thus—

Bills Receivable—

Dr.

To Sundries

Being the total amount of bills received during the month as per B/R Book.

£ s. d. £ s. d.

Q. When a Bill Receivable falls due how is the amount collected, and what entries are made in the books?

A. When a Bill Receivable matures it is usual to pay it into the bank for collection. The Bank Account is therefore debited and Bills Receivable Account is credited. When the Bank Account is kept in the Cash Book the entry will be made therein and afterwards posted to the credit of Bills Receivable Account.

Prepare Ledger accounts showing how the bills mentioned in the specimen Bills Receivable Book would be recorded down to the date of maturity.

A.—

LEDGER.

Folio 3.

DR.

BILLS RECEIVABLE ACCOUNT.

CR.

1910.		B/R Bk. Folio	£	s.	d.	1910.		C.B.	£	s.	d.
May 31	To Sundries	1	110	0	0	July 28	By Bank	3	60	0	0
					Aug. 6	" "	7	50	0	0	
			110	0	0				110	0	0

Folio 5.

Dr.

A. BLACK.

Cr.

1910.			£	s.	d.	1910.		B.Bk.	£	s.	d.
May 1	To Balance .	b/f	50	0	0	May 8	By Bills Re-	1	50	0	0
						ceivable .					

Folio 16.

Dr.

W. RHODES.

Cr.

1910.			£	s.	d.	1910.		B.Bk.	£	s.	d.
May 1	To Balance .	b/f	60	0	0	May 22	By Bills Re-	1	60	0	0
						ceivable .					

Dr.

CASH BOOK.

Cr.

		Fol.	Dis.		Bank.				Fol.	Dis.		Bank.			
			£	s.	d.	£	s.	d.		£	s.	d.	£	s.	d.
1910.															
July 23	To B R No. 2	2				50	0	0							
Aug. 6	.. B R No. 1	3				60	0	0							

Q. What entries are necessary when a Bill Receivable has been paid into the bank and is afterwards returned dishonoured?

A. The entries necessary are as follows :—

Debit the person from whom the bill was received with the amount of the bill and any charges for noting which may have been incurred by the bank, and

Credit the bank with the same amounts, such credit being effected by an entry on the Cr. side of the Cash Book in the bank column.

Q. What is meant by "renewing a bill"?

A. When the acceptor of a bill is unable to meet it at maturity he sometimes arranges with the holder to surrender the bill in exchange for a new one, by means of which the acceptor obtains further time in which to pay the amount. This is called "Renewing a Bill." Interest on the amount of the

old bill for the period of extended credit is usually charged, and either paid at the date of renewal or included in the amount of the renewed bill.

Q. What entries are necessary when a Bill Receivable is renewed?

A. The entries are as follows:—

Debit the acceptor's account and credit Bills Receivable Account with the amount of the old bill.

Debit the acceptor's account and credit Interest Account with the amount of interest charged for the renewal.

Debit Bills Receivable and credit the acceptor's account with the amount of the new bill.

If the interest charged for the renewal is not included in the amount of the new bill, but is paid, Cash will be debited and the acceptor's account credited with the amount.

Q. When a Bill Receivable is renewed, in which book or books should the transaction be recorded before being posted to the Ledger?

A. When a Bill Receivable is renewed a note to that effect, including the number of the new bill, is made in the Bills Receivable Book in the column headed: "How disposed of." At the same time a Journal entry should be made to record the surrender of the old bill, thus—

	£	s.	d.	£	s.	d.
A.B. Dr.	60	7	6			
To Sundries—						
Bills Receivable				60	0	0
Interest				0	7	6
For B/R No. 5, renewed for three months, and interest at 5% per annum.						

The new Bill Receivable will be entered in Bills Receivable Book and posted to credit of A.B.'s Account, and included in the total amount posted to the debit of Bills Receivable Account.

Q. What is meant by "Retiring a Bill"?

A. "Retiring a Bill" means that the acceptor, with the consent of the holder, pays the amount of the bill before the

due date arrives in consideration of a rebate or discount being allowed.

Q. What entries are necessary to record the retiring of a Bill Receivable under discount?

A. The amount received will be entered in the Cash Book, Dr. side, and the discount will be entered in the discount column, both amounts being posted to the credit of Bills Receivable Account thus—

Folio 10.

Dr.		BILLS RECEIVABLE ACCOUNT.						Cr.			
1910.		B/R	£	s.	d.	1910.		C.B.	£	s.	d.
May 30	To Sundries	5	280	0	0	June 8	By Cash, B/R				
							No. 6	1	225	0	0
							„ Discount	1	5	0	0

Dr.		CASH BOOK.								Cr.					
		Fol.	Dis.		Bank.				Fol.	Dis.		Bank.			
1910.			£	s.	d.	£	s.	d.		£	s.	d.	£	s.	d.
June 8	To B/R No. 6	10	5	0	0	225	0	0							

Q. What is meant by "Discounting a Bill"?

A. "Discounting a Bill" means disposing of all interest in the bill for the amount thereof less an allowance for discount.

Q. What is meant by the "True Discount"?

A. "True Discount" is the difference between the present worth of a bill and the amount. Thus, a sum of £100 deposited at 5 per cent. per annum interest will amount in one year to £105, therefore the present worth of a bill of exchange for £105 payable in one year is £100, and the true discount is £5.

Q. What is "Mercantile Discount"?

A. "Mercantile Discount" is calculated on the amount of the bill. Thus the mercantile discount at 5 per cent. on a bill for £105 payable in one year would be £5 5s.

Q. When a bill is discounted what entries are necessary to record the transaction?

A. The amount received is entered in the Cash Book on the Dr. side in the Bank column, and the amount of discount is

recorded in the Discount column, both amounts being posted to the credit of Bills Receivable Account.

Q. If a bill is discounted and is afterwards dishonoured what entries are necessary?

A. If the bill has been discounted at the bank, the Bank Account in the Cash Book will be credited with the full amount of the bill and any expenses incurred, and the person from whom the bill was received will be debited.

Q. How are Bills Payable recorded in the books of a merchant?

A. When a bill is accepted by a merchant, particulars of the bill are entered in a special Journal called the Bills Payable Book, which may be ruled as under—

BILLS PAYABLE BOOK.

No. of bill.	Date accepted.	On whose account.	By whom drawn.	Payee.	Where payable.	Date of bill.	Term.	Date due.	Ledger folio.	Discount.	Amount of bill.	How disposed of.
										£ s d.	£ s d.	

Q. How is the Bills Payable Book posted to the Ledger?

A. Each item in the Bills Payable Book is posted to the debit of the account with the person on whose account the bill has been accepted, the total bills accepted being periodically posted to the credit of Bills Payable Account. The totals may be journalized thus—

1910.				£	s.	d.	£	s.	d.
May 31	Sundries—	Dr.							
	To Bills Payable								
	For total bills accepted during								
	the month as per Bills Payable Book								

Q. When a Bill Payable falls due how is payment made and recorded in the books?

A. When a merchant accepts a bill he usually makes it payable at his bankers, who are authorized by him to honour his acceptances when presented for payment. Therefore, when

such a bill falls due, an entry is made in the Cash Book crediting the bank with the amount, Bills Payable Account being afterwards debited.

Q. What entries are necessary to record the dishonour of a Bill Payable?

A. The following entries would be made through the Journal:—

Debit Bills Payable, and

Credit the person on whose account it was accepted.

Q. If a Bill Payable is retired under discount, what entries would be necessary?

A. An entry would be made on the Cr. side of Cash Book in the Bank and Discount columns, the items being afterwards posted to the debit of Bills Payable Account.

Q. If a Bill Payable is renewed, how would the transaction be recorded?

A. A Journal entry would be necessary to "write back" the first bill, thus—

		£	s.	d.	£	s.	d.
Bills Payable—	Dr.						
To A.B.		120	0	0			
For B/P No. 5 renewed					120	0	0

In addition, a record of the renewal would be made in the Bills Payable Book against the entry of the first bill in the column headed: "How disposed of." The new acceptance would be recorded in the Bills Payable Book and posted in the same manner as the other items therein.

Q. What is the advantage of having separate accounts in the Ledger for Bills Receivable and Bills Payable?

A. By means of separate accounts the amount of Bills Receivable on hand can be easily ascertained by examining the Bills Receivable Account, the balance of which should agree with the total amount of such bills. The total liability in respect of acceptances can in like manner be readily ascertained from the Bills Payable Account.

Q. What is an Accommodation Bill?

A. An Accommodation Bill is a bill of exchange for which no consideration (or value) has been given by the drawer to the acceptor. In form it is the same as an ordinary bill.

Q. How are Accommodation Bills recorded in the books of account?

A. Accommodation Bills are recorded in the same manner as other bills.

Q. How are Promissory Notes recorded in the books of a merchant?

A. For purposes of book-keeping Promissory Notes are treated in all respects as bills of exchange.

CHAPTER XVIII.

Consignment accounts—Difference between a sale of goods and a consignment—Entries in books of consignor and consignee—Account Sales—*Del credere* commission—Documentary bills—Bill of lading—Letter of hypothecation—Accounts Current.

Q. What is a consignor?

A. A consignor is a merchant who sends goods to an agent abroad for sale on commission for account of the merchant.

Q. What is a consignee?

A. A consignee is an agent to whom goods are sent by a merchant for sale on commission.

Q. What is the difference between a sale of goods and a consignment of goods?

A. When goods are sold and delivered the purchaser becomes the debtor of the vendor. When goods are sent to an agent on consignment account they remain the property of the consignor, and the agent does not become the debtor of the consignor until the goods or a part of them have been sold, and then he is only accountable for the proceeds of the sale less his expenses and commission.

Q. What is a pro formâ invoice?

A. A *pro formâ* invoice is a statement containing particulars of the quantities and description of goods sent to an agent for sale on consignment account, and the minimum prices which the goods are expected to fetch when realized.

Q. How are consignments recorded in the books of the consignor?

A. As a rule, a consignor desires to know the profit or loss resulting from each consignment, and in this case it is necessary to open a separate Ledger account for each consignment. Particulars of the goods are entered in a Consignment Outwards Book, and the postings to the Ledger are as follows:—

Debit Consignment Account with the cost of the goods and credit a "Goods sent on Consignment Account."

Debit Consignment Account with carriage, freight, insurance, and any other expenses connected with the purchase and shipment of the goods, and credit Cash or personal accounts.

In due course an Account Sales will be received from the consignee showing the total amount realized by the sale of the consignment, the expenses incurred by the consignee, the amount of his commission, and the balance due to the consignor.

When the Account Sales is received the following further entries will be made in the Journal and posted to the Ledger:—

Debit Consignee's Account and credit Consignment Account with the total amount realized.

Debit Consignment Account and credit consignee's account with the expenses incurred by him, and his commission.

The balance of the Consignment Account will represent the profit or loss on the consignment, and should be transferred to Profit and Loss.

The balance of the consignee's account represents the balance due from him to the consignor.

Give a specimen of an Account Sales.

A. The following is a form of Account Sales:—

ACCOUNT SALES.

Account Sales of 10 Bales of Coloured Shirtings received *ex* "Manchester City" from Messrs. Blake & Co. and sold by the undersigned.

					£	s.	d.
<div style="border: 1px solid black; padding: 5px; display: inline-block; transform: rotate(45deg); transform-origin: center;">B</div>							
	10/10	10	Bales 50 pieces = 500 pieces at 8/6	.			212 10 0
			Charges—		£	s.	d.
			Customs Duties	.	10	12	6
			Landing and Cartage	.	1	5	0
			Fire Insurance	.	2	0	0
			Warehouse Rent	.	3	0	0
			Commission, 5 per cent.	.	10	12	6
							27 10 0
			Net proceeds, as per draft herewith	.	185	0	0

E. & O. E.

(Signed)

SCHWANN & Co.

5th May, 1910.

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Prepare accounts showing how the above consignment to Schwann & Co. would be recorded in the consignor's Ledger.

Dr.		CONSIGNMENT ACCOUNT.			Cr.	
1910.		£	s.	d.	1910.	£ s. d.
April 2	To Goods	150	0	0	May 30	By Schwann & Co.
	.. Freight	8	0	0		Gross Proceeds
	.. Insurance	4	0	0		212 10 0
	.. Dock Dues	3	10	0		
	.. Schwann & Co.—					
	Customs					
	Duties	10	12	6		
	Landing					
	and Cartage	1	5	0		
	Fire Insur-					
	ance	2	0	0		
	Warehouse					
	Rent	8	0	0		
	Commission	10	12	6		
	Balance to					
	Profit and					
	Loss Account	19	10	0		
		212	10	0		212 10 0

Dr.		SCHWANN & CO.			Cr.	
1910.		£	s.	d.		£ s. d.
May 30	To Consignment Account	212	10	0	By Consignment Account—	
					Sundry expenses and Commission	27 10 0
					.. Bills Receivable	185 0 0
		212	10	0		212 10 0

Q. How are consignments recorded in the books of the consignee?

1. As the goods do not become the property of the consignee, no entry in the Ledger is necessary until some of the goods have been sold, or an expense has been incurred by the consignee on account of the consignor. A Consignment Account is therefore not necessary in the Ledger of the consignee, all the transactions being debited or credited direct to the personal account with the consignor. Particulars of the goods received

policy of marine insurance, and letter of hypothecation. Such bills may be realized, and the documents attached furnish security to the holder in the event of the bill being dishonoured by non-acceptance or non-payment. By means of documentary bills a consignor obtains the immediate use of the value of the goods.

Give a specimen of a documentary bill.


A. The following is a form of documentary bill:—

£350

London,
July 31, 1910.

Ninety days after sight pay this First of Exchange (Second and Third unpaid) to our order the sum of three hundred and fifty pounds sterling at the National Bank of India's drawing rate for demand drafts on London, with interest at five per cent. per annum added thereto from date hereof to approximate due date of the remittance in London, value received

4/-

against  G & Co. 156/20. Shipping documents attached to

be surrendered against acceptance.

A. BROAD & Co.

To GORDON & Co.,
Bombay.

The bill will be indorsed—

Pay National Bank of India or Order.

A. BROAD & Co.

and with the shipping documents attached will be handed to the bank in return for a credit for £350, and provided Gordon & Co. accept and meet the bill, the transaction as far as Broad & Co. are concerned is practically a cash transaction.

The bank will forward the bill and documents to its Bombay branch, who will hand the latter to Gordon & Co. on acceptance by them of the bill. This assumes that Gordon & Co. can be relied on to meet all demands against them, otherwise the terms of the bill and the method of carrying out the transaction would be varied to suit the particular circumstances.

Q. What is a bill of lading?

A. A bill of lading is a document signed by the captain or agent of a ship, acknowledging the receipt of certain goods, and undertaking to deliver them at a specified place to or to the order of the person named in the document. Bills of lading are usually made out in triplicate, and each copy must bear a 6d. stamp before it is signed. A bill of lading made out to a

CHAPTER XIX.

**Joint ventures—Meaning of—Accounts necessary to record them—
Example of joint accounts.**

Q. What are Joint Ventures ?

A. Joint Ventures are trading operations undertaken by two or more persons, who agree to provide the cost of the undertaking and to share the resulting profit, or loss.

Q. What accounts are necessary to record a Joint Venture ?

A. It is necessary for each party to the venture to open a Joint Venture Account and a personal account with each of the other parties concerned. The procedure will then be as follows :—

Debit Joint Account with all expenses or liabilities incurred in respect of the venture and credit Cash or Creditors' Accounts.

Debit Joint Account and credit the personal accounts with the other parties to the venture with expenses and liabilities incurred by them.

Credit Joint Account and debit Cash or other appropriate accounts with the amount realized by the sale of the goods forming the subject of the venture.

The balance of the Joint Account will represent the profit or loss on the venture, which will be transferred in the agreed proportions to Profit and Loss, and to the personal accounts with the other parties.

The personal accounts will be closed upon the receipt or payment of the balances thereon.

A. and B. join in the purchase of a cargo of timber, and agree to share the expenses and profits in equal proportions. A. agrees to arrange the purchase, and B. undertakes the sale of the goods. The cost of the timber was £1200, and B. at once paid £600 to A. for his share. A. incurred the following expenses : unloading £25, cartage £18 10s., storage £27. B. sold the timber for £1600, receiving in settlement a bill of exchange payable two months after date. This he at once discounted at 5 per cent. per annum. His expenses amounted to £10.

JOINT VENTURE ACCOUNTS

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Prepare accounts as they would appear in both A's and B's Ledger, showing the result of the venture.

A.—

A's LEDGER.

DR.

JOINT ACCOUNT WITH B.

CR.

	£	s.	d.		£	s.	d.
To Cost of Timber . .	1200	0	0	By B., Proceeds of Sale .	1600	0	0
„ Unloading . .	25	0	0				
„ Cartage . .	18	10	0				
„ Storage . .	27	0	0				
„ B., Expenses . .	10	0	0				
„ „ Discount on Bill . .	18	6	8				
„ Balance, being Profit carried down .	306	8	4				
	1600	0	0		1600	0	0
„ Profit and Loss, half share . .	153	1	8	„ Balance brought down .	306	8	4
„ B. . .	153	1	8				
	306	8	4		306	8	4

DR.

B's ACCOUNT.

CR.

	£	s.	d.		£	s.	d.
To Joint Account—				By Cash . .	600	0	0
Proceeds of Sale of Timber .	1600	0	0	Joint Account—			
				„ Expenses . .	10	0	0
				„ Discount on Bill . .	18	6	8
				„ Joint Account, halfshare of profit .	153	1	8
				„ Balance . .	823	11	8
	1600	0	0		1600	0	0
„ Balance . .	823	11	8				

B.'s LEDGER.

DR.

JOINT ACCOUNT WITH A.

CR.

	£	s.	d.		£	s.	d.
To Cash Expenses .	10	0	0	By Bill Receivable, proceeds of Sale .	1600	0	0
„ Discount on Bill .	13	6	8				
„ A., Cost of Timber .	1200	0	0				
Unloading	25	0	0				
Cartage .	18	10	0				
Storage .	27	0	0				
„ Balance carried down	306	3	4				
	1600	0	0		1600	0	0
„ Profit and Loss, half share .	153	1	8	„ Balance brought down .	306	3	4
„ A., halfshare	153	1	8				
	306	3	4		306	3	4

DR.

A.'s ACCOUNT.

CR.

	£	s.	d.		£	s.	d.
To Cash .	600	0	0	By Joint Account, cost of Timber	1200	0	0
„ Balance carried down .	823	11	8	„ Ditto, Expenses—			
				Unloading	25	0	0
				Cartage .	18	10	0
				Storage .	27	0	0
				„ Ditto, half share profit .	153	1	8
	1423	11	8		1423	11	8
				By Balance	823	11	8

The venture will be closed by the payment of £823 11s. 8d. by B. to A.

CHAPTER XX.

Partnership—Definition—The two kinds of partnerships—Deed of partnership—Principal clauses—Rights of partners in the absence of agreement—Partnership accounts—Adjustments of interests of partners—Interest on capital and drawings—Partners' salaries—Example of partnership accounts and balance-sheet—Average date—Meaning of.

Give a definition of Partnership.

A. Partnership is the relation which subsists between persons carrying on business in common with a view of profit.

Q. Is there a limit to the number of persons who may form a partnership?

A. Yes; not more than twenty persons may form a partnership; or not more than ten if the partnership is formed to carry on a banking business.

Q. How many kinds of partnerships are there?

A. There are two kinds of partnerships, viz.—

1. General Partnerships which are governed by the Partnership Act of 1890.
2. Limited Partnerships which are governed by the Limited Partnership Act of 1907.

Q. What is a General Partnership?

A. A General Partnership is one which consists of persons whose liability for the debts and obligations of the firm is unlimited.

Q. What is a Limited Partnership?

A. A Limited Partnership is one which consists of one or more general partners whose liability is unlimited, and one or more limited partners whose liability is limited to the amount of capital contributed by them.

Q. What is a Deed of Partnership?

A. A Deed of Partnership is a written agreement setting forth the terms of the partnership and the rights and interests of the partners. The clauses in the deed are called the Articles of Partnership.

Q. What are the principal clauses relating to the accounts which should be contained in a deed of partnership?

A. The principal clauses relating to the accounts which should be inserted in partnership deeds are as follows :—

1. As to the amount of Capital to be contributed by each partner.
2. As to the proportion in which each partner is to share profits and losses, including Capital profits and losses.
3. As to the rate of interest (if any) to be allowed on Capital and charged on Drawings before the ascertainment of profits and losses.
4. As to the preparation, audit, and signing of the accounts of the firm.
5. As to the method of determining the Capital of a deceased partner, including his share of the Goodwill.

Q. In the absence of agreement how are the interests, rights, and duties of the partners determined?

A. In the absence of any agreement, express or implied, between the partners the Partnership Act, 1890, provides that—

1. Partners are entitled to share equally in the Capital and profits of the business, and must contribute equally towards the losses, whether of Capital or otherwise, sustained by the firm.
2. Partners are entitled to interest at the rate of five per cent. per annum on advances as apart from Capital.
3. Partners are not entitled, before the ascertainment of profits, to interest on Capital.
4. Partners are not entitled to remuneration for acting in the partnership business.

Q. What accounts are necessary to record the Capital of a partnership?

A. It is necessary to have a separate Capital Account for each partner. In addition, it is often convenient to have a

INTEREST ON CAPITAL AND DRAWINGS 127

Current or Drawings Account for each partner, to which is debited any withdrawals of Capital during a given period. Any items of profit or otherwise due to a partner are credited to his Drawings Account, the balance of which is periodically transferred to the Capital Account.

Q. Before ascertaining the amount of profits to be divided, what matters of account usually require to be dealt with in order to adjust the respective rights of the partners ?

A. Before ascertaining the divisible profits of a partnership it is usually necessary to deal with the following matters, viz.—

Interest on the amount of each partner's Capital.

Interest on the amount of each partner's Drawings.

The amount of salary (if any) due to each partner.

Q. How are the rate of interest on Capital and the amounts of the partners' salaries fixed ?

A. These matters are fixed by agreement between the partners. The usual rate of interest on Capital is five per cent. per annum.

Q. Why is it considered necessary to allow interest on Capital before ascertaining the profits ?

A. The rate of interest on Capital is usually fixed at five per cent., and by first charging Profit and Loss Account with such interest the partners can see whether the remaining profits amount to a sum sufficient to justify the continuance of the business with unlimited liability. Where the amounts of Capital invested by the partners are unequal the allowance of interest is necessary in order to adjust the interests of the partners.

Q. Why is it necessary to charge (or debit) partners with interest on Drawings ?

A. In many cases partners' Drawings are unequal in amount, and take place at irregular intervals, and it is necessary to charge interest on the amounts withdrawn in order to adjust the rights of the partners.

Q. How should partners' salaries be treated in the Ledger accounts ?

A. If the partners' salaries are regularly paid, a nominal

account for Partners' Salaries should be debited and Cash or Bank Account credited, the nominal account being transferred to Profit and Loss at the end of each period. If the salaries, or any part thereof, are due but not actually drawn, the nominal account will be debited and the partners' Drawings Accounts credited.

Brown and Black are partners, and on June 30, 1910, the following Trial Balance was extracted from their books :—

	£	s.	d.	£	s.	d.
Capital: Brown				5000	0	0
" Black				4000	0	0
Drawings: Brown	400	0	0			
" Black	500	0	0			
Salaries: Brown	300	0	0			
" Black	400	0	0			
Stock, June 30, 1909	4000	0	0			
Purchases	7000	0	0			
Sales				13,000	0	0
Wages	1200	0	0			
Carriage Inwards	320	0	0			
" Outwards	95	0	0			
Salaries	560	0	0			
Trade Expenses	110	0	0			
Rates and Taxes	120	0	0			
Creditors				1100	0	0
Debtors	1450	0	0			
Bills Receivable	385	0	0			
Cash at Bank	400	0	0			
Plant and Machinery	1860	0	0			
Freehold Buildings	4000	0	0			
	23,100	0	0	23,100	0	0

After allowing interest on Capital and charging interest on Drawings at the rate of 5 per cent. per annum the profits are divided equally. The average date of the Drawings in each case is Dec. 31, 1909. The Stock at June 30, 1910, amounted £4700.

Prepare Trading and Profit and Loss Accounts and Balance-sheet and the Capital and Drawings Accounts.

PARTNERSHIP ACCOUNTS

129

A. — TRADING AND PROFIT AND LOSS ACCOUNT

Dr.

(For the Year ending June 30, 1910).

Cr.

1909.		£	s.	d.	1910.		£	s.	d.
Jun. 30	To Stock .	4000	0	0	Jun. 30	By Sales .	13,000	0	0
1910.					" "	" Stock .	4700	0	0
Jun. 30	" Purchases .	7000	0	0					
" "	" Wages .	1200	0	0					
" "	" Carriage (in- wards)	320	0	0					
" "	" Gross Profit carried down	5180	0	0					
		<u>17,700</u>	<u>0</u>	<u>0</u>			<u>17,700</u>	<u>0</u>	<u>0</u>
" "	To Salaries .	560	0	0	" "	By Gross Profit brought down	5180	0	0
" "	" Partners' Salaries .	700	0	0	" "	By Interest on drawings—			
" "	" Carriage (outwards) .	95	0	0		£ s.			
" "	" Trade Ex- penses .	110	0	0		Brown 10 0			
" "	" Rates and Taxes .	120	0	0		Black 12 10	22	10	0
" "	" Interest on Capital—								
" "	£								
" "	Brown 250								
" "	Black 200								
		450	0	0					
" "	" Balance Net Profit car- ried down .	3167	10	0					
		<u>5202</u>	<u>10</u>	<u>0</u>			<u>5202</u>	<u>10</u>	<u>0</u>
" "	To Capital Ac- counts—				" "	By Net Profit brought down	3167	10	0
	Brown ½-share	1583	15	0					
	Black "	1583	15	0					
		<u>3167</u>	<u>10</u>	<u>0</u>			<u>3167</u>	<u>10</u>	<u>0</u>

Cr.

[illegible]

CR.

1910.			£	s.	d.	1909.			£	s.	d.
June 30	To Balance					June 30	By Balance .		5000	0	0
	carried down		6423	15	0		" Drawings Account		1423	15	0
			<hr/>	<hr/>	<hr/>				<hr/>	<hr/>	<hr/>
			6423	15	0				6423	15	0
			<hr/>	<hr/>	<hr/>				<hr/>	<hr/>	<hr/>
						1910.					
						June 30	By Balance .		6423	15	0

PARTNERSHIP ACCOUNTS

131

DR.

BROWN'S DRAWINGS ACCOUNT.

CR.

1910.		£	s.	d.	1910.		£	s.	d.
June 30	To Sundry Drawings .	400	0	0	June 30	By Interest on Capital .	250	0	0
"	" Interest on ditto	10	0	0	"	" Profit and Loss Account .	1583	15	0
"	" Balance to Capital Account .	1423	15	0					
		1833	15	0			1833	15	0

DR.

BLACK'S CAPITAL ACCOUNT.

CR.

1910.		£	s.	d.	1909.		£	s.	d.
June 30	To balance carried down	5271	5	0	June 30	By Balance .	4000	0	0
					"	" Drawings Account .	1271	5	0
		5271	5	0			5271	5	0
					1919.				
					June 30	By Balance .	5271	5	0

DR.

BLACK'S DRAWINGS.

CR.

1910.		£	s.	d.	1910.		£	s.	d.
June 30	To Sundry Drawings	500	0	0	June 30	By Interest on Capital .	200	0	0
"	" Interest on ditto	12	10	0	"	" Profit and Loss Account .	1583	15	0
"	" Balance to Capital Account .	1271	5	0					
		1783	15	0			1783	15	0

Give a form of Drawing Account showing interest charged on each amount withdrawn by a partner.

A.—

DR.

DRAWINGS ACCOUNT.

CR.

		Fol.		Dys.	Int.		Amt.				Fol.		Dys.	Int.		Amt.	
					£	s.	d.	£	s.	d.					£	s.	d.
1910.											1910.						
Jan. 30	To Cash	5	151		2	17	10	140	0	0	June 30	By Balance to	Jnl.				
Feb. 5	" "	7	147		8	9	2	420	0	0		Capital Ac-					
May 4	" "	12	57		14	10		95	0	0		count .	2			667	1 10
	Jnl.																
	" Interest	2						12	1	10							
								667	1	10						667	1 10

Q. What is meant by the "average date"?

A. The average date is the mean or equated time of payment of a number of sums due or paid on different dates during a given period. The earliest date is usually taken as a starting point, and the method adopted is as under:—

1. Multiply each amount by the number of days from the commencement of the period to the date of the item.
2. Divide the total of the products by the total of the amounts.

The result will represent the number of days from the commencement of the period to the average date.

A partner has withdrawn the following sums during the half-year ending June 30, 1910:—

Jan. 18	.	.	.	.	.	£250
Feb. 12	.	.	.	.	.	300
May 16	.	.	.	.	.	400

Interest is charged at 5 per cent. per annum. Find the average date and calculate the interest.

A.—

Drawings.		Date.	No. of days from Jan. 1.	Products.
£	s. d.			
250	0 0	Jan. 18	18	4,500
300	0 0	Feb. 12	43	12,900
400	0 0	May 16	136	54,400
950	0 0			71,800

$\frac{71,800}{950} = 75$. Therefore March 16 is the average date.

March 16 to June 30 = 106 days.

Interest on £950 for 106 days at 5 per cent. per annum = £13 15s. 11d.

A. purchases goods from B. as follows :—

July 1	2463
August 15	325
September 8	264
	<hr/>
	1052

Payment was to be made by bills payable two months from date of invoices, but A. arranged for payment to be made by one bill payable two months after the average date. What is the average date?

A. The starting point is July 1.

Date.	Amount.			No. of days from July 1.	Pro- ducts.
	£	s.	d.		
July 1	463	0	0	0	—
Aug. 15	325	0	0	45	14,625
Sept. 8	264	0	0	69	18,216
	<hr/>	<hr/>	<hr/>		<hr/>
	1052	0	0		32,841
	<hr/>	<hr/>	<hr/>		<hr/>

$\frac{32,841}{1052} = 31$. Therefore the average date is July 1 + 31 days = August 1.

CHAPTER XXI.

Goodwill—Definition—How created—Goodwill account—How dealt with—How value determined—Examples of treatment of goodwill on introduction of a partner—Deceased partner's share of goodwill—Life assurance policy to provide for part payment—Treatment in accounts of premiums and policy moneys—Treatment of unpaid balance due to a retiring or deceased partner—Payment by way of annuity—How recorded in books.

Q. What is Goodwill ?

A. Goodwill is the value of the connection and reputation of a business, and of the probability that the old customers will continue to resort to the same place of business notwithstanding any change in proprietorship.

Q. In how many ways may Goodwill be created ?

A. Goodwill may be created—

1. By the personal skill and influence of the proprietor, as in the case of a doctor or other professional man.
2. By securing a monopoly either as to the place of business, or as to the articles produced.
3. By acquiring a good reputation as regards quality and price of goods supplied.

Q. When is it necessary to open a Goodwill Account ?

A. The value of the Goodwill is usually ascertained and a Goodwill Account opened when it is proposed to transfer a part or the whole of the interest in a business to strangers, as for example when a partner is to be admitted or the entire business is to be sold.

Q. In the case of a partnership, how is the item Goodwill dealt with as between the old partners ?

A. Goodwill Account is debited and the old partners' Capital Accounts are credited in the proportion in which they share profits or losses.

Q. How is the value of Goodwill usually ascertained?

A. Goodwill is usually valued on the basis of the average profits for a term of from 3 to 5 years; but where the Goodwill is based upon personal skill and influence, the value will depend upon how far the change of proprietorship is likely to affect the amount of business.

X. is in business and his Balance-Sheet is as follows:—

Dr.	BALANCE-SHEET OF X.						Cr.
	£	s.	d.		£	s.	d.
To Creditors	500	0	0	By Cash	300	0	0
„ Capital	4000	0	0	„ Debtors	600	0	0
				„ Stock	2500	0	0
				„ Plant, etc.	400	0	0
				„ Premises	700	0	0
	4500	0	0		4500	0	0
	<u> </u>	<u> </u>	<u> </u>		<u> </u>	<u> </u>	<u> </u>

The profits average £900 a year, and X. has decided to admit Y. as a partner upon the terms of his paying X. £1000 for a third share of the profits, and investing in addition £1000 as capital. X. agrees to allow the whole of the £2000 paid by Y. to remain in the business.

Draft the Journal entry giving effect to the above arrangement, and prepare the Balance-Sheet of the new firm.

A.— JOURNAL.

	£	s.	d.	£	s.	d.
Cash Dr.	2000	0	0			
To Sundries—						
X. Capital Account				1000	0	0
Y.				1000	0	0
For £1000 paid by Y. for a third share in the business and £1000 paid as capital.						

DR.

BALANCE-SHEET OF X. AND Y.

CR.

	£	s.	d.		£	s.	d.
To Creditors	500	0	0	By Cash	2300	0	0
„ Capital—				„ Debtors	600	0	0
X.	5000	0	0	„ Stock	2500	0	0
Y.	1000	0	0	„ Plant, etc. . . .	400	0	0
	6500	0	0	„ Premises	700	0	0
					6500	0	0

A. and B. are in business and share profits and losses equally. Their Balance-Sheet is as follows:—

DR.

BALANCE-SHEET OF A. AND B.

CR.

	£	s.	d.		£	s.	d.
To Creditors	200	0	0	By Cash	50	0	0
„ Capital—				„ Debtors	120	0	0
A.	1200	0	0	„ Stock	1300	0	0
B.	900	0	0	„ Plant, etc. . . .	930	0	0
	2400	0	0		2400	0	0

They decide to admit C. upon the basis of the above Balance-Sheet with the addition of Goodwill, the value of which has been agreed at £1500. C. is to pay £1000 as capital and is to receive a third share of the profits. Draft Journal entries giving effect to these arrangements, and prepare the Balance-Sheet of the new firm.

A.—

JOURNAL.

	£	s.	d.		£	s.	d.
Goodwill Account. Dr.	1500	0	0				
To Sundries—							
A. Capital Account					750	0	0
B.					750	0	0
For agreed value of Goodwill, prior to introduction of C.							
Cash Dr.	1000	0	0				
To C. Capital Account—							
Amount of Capital as agreed					1000	0	0

Dr.

BALANCE-SHEET OF A, B, AND C.

Cr.

	£	s.	d.		£	s.	d.
To Creditors . . .	300	0	0	By Cash . . .	1050	0	0
„ Capital—				„ Debtors . . .	120	0	0
A.	1950	0	0	„ Stock . . .	1900	0	0
B.	1650	0	0	„ Plant, etc. . .	930	0	0
C.	1000	0	0	„ Goodwill . . .	1500	0	0
	4900	0	0		4900	0	0
	<u> </u>	<u> </u>	<u> </u>		<u> </u>	<u> </u>	<u> </u>

R. and S. are partners sharing profits, R. two-thirds, S. one-third. Their Balance-Sheet was as under :—

Dr.

BALANCE-SHEET OF R. AND S.

Cr.

	£	s.	d.		£	s.	d.
To Creditors . . .	600	0	0	By Cash . . .	150	0	0
„ Capital—				„ Debtors . . .	850	0	0
R.	2000	0	0	„ Stock . . .	2500	0	0
S.	1500	0	0	„ Plant . . .	600	0	0
	4100	0	0		4100	0	0
	<u> </u>	<u> </u>	<u> </u>		<u> </u>	<u> </u>	<u> </u>

It was agreed to admit T. as a partner on the following terms :— the Goodwill to be valued at £1500; Debtors to be subject to a Reserve of £150; Stock and Plant to be taken at the reduced values of £2200 and £300 respectively. T. to pay £2000 cash as Capital and to receive one-fourth of the profits, the old partners taking their original proportions.

Draft Journal entries giving effect to the above arrangements; prepare a Balance-Sheet of the new firm; and state in what proportions the profits will be shared by the new partners.

A.—

JOURNAL.

	£	s.	d.	£	s.	d.
Goodwill Account Dr.	1500	0	0			
To R. and S. Capital Adjustment Acct. For value of Goodwill as agreed.				1500	0	0
R. and S. Capital Adjustment Account Dr.	750	0	0			
To Sundries—						
Reserve for Bad Debts				150	0	0
Stock Depreciation				300	0	0
Plant				300	0	0
For Reserve and Depreciation as agreed on the admission of T. into Partner- ship.						
R. and S. Capital Adjustment Account Dr.	750	0	0			
To Sundries—						
R. Capital Account (two-thirds) .				500	0	0
S. " " (one-third) .				250	0	0
For Balances transferred.						
Cash Dr.	2000	0	0			
To T. Capital Account				2000	0	0
Capital paid in by T. as agreed.						

DR.

BALANCE-SHEET OF R., S., AND T.

CR.

	£	s.	d.		£	s.	d.
To Creditors	600	0	0	By Cash	2150	0	0
" Capital Ac- counts—				" Debtors £850			
R.	2500	0	0	" Less Reserve £150			
S.	1750	0	0		700	0	0
T.	2000	0	0	" Stock	2200	0	0
				" Plant	300	0	0
				" Goodwill	1500	0	0
	6850	0	0		6850	0	0

Profits will be shared by the new partners in the proportions of 2, 1, 1 : R. $\frac{1}{2}$, S. $\frac{1}{4}$, and T. $\frac{1}{4}$.

Q. What are the rights of the representatives of a deceased partner with regard to Goodwill?

A. The representatives of a deceased partner have the right, subject to any agreement, to have the value of the Goodwill ascertained, and to be paid the deceased partner's share.

Q. As the exercise of such right might disturb the financial position of the business, what other arrangement is sometimes agreed upon ?

A. Instead of the payment out of the deceased partner's share of Goodwill, it is frequently arranged that the representatives shall receive either an annuity or a share of the profits for a certain period.

Q. Sometimes partners agree to effect assurances on their own lives to provide for part payment out of their share of Goodwill and Capital at death, the premiums being paid by the firm. In such cases how should the premiums and policy moneys be dealt with in the books of account ?

A. The treatment of premiums and policy moneys varies, but the following method may be adopted :—

Debit separate accounts for each policy, and credit Cash with the amount of premiums paid.

Debit Profit and Loss, and credit a Special Reserve Account with the amount of the difference between the Policy Account and the Surrender Value of each policy, any excess of reserve in later years to be transferred to credit of Profit and Loss.

When policy moneys are received, debit Cash and credit the Policy Account.

The Reserve (if any) in respect of the policy will be transferred to Policy Account, the balance of which will be transferred to Profit and Loss and divided amongst all the partners in the proportion in which profits are shared.

By this method the policies are treated as investments of the firm, and the profit derived therefrom is divided proportionately. When a policy matures the firm receives a considerable sum in cash to provide for part payment of the deceased partner's share in the business.

Q. When the whole of a deceased or retiring partner's share is not immediately paid, how should the balance due be treated in the books of the firm ?

A. The balance should be transferred to a Loan Account, interest being credited at an agreed rate and payments being debited as and when made.

Q. What is meant by a "rest" in partnership accounts ?

A. A rest means an agreed period at the end of which the

balance of the account (principal and interest) is to be ascertained and brought forward to a new account in one sum, to include principal and interest.

Q. Where a deceased partner's or a retiring partner's share is to be paid by way of an annuity, how should the arrangement be recorded in the books of account?

A. Where payment of a partner's share is to be made by way of an annuity, the value of such share should be transferred to the credit of a Special Annuity Account. As each payment becomes due, interest calculated on the balance of the Annuity Account will be credited and Interest Account debited. The account will then be debited with the amount of cash paid, Cash Account being credited. Any balance standing to the credit of the Annuity Account at the date when the annuity ceases will be transferred to Profit and Loss Account. If, however, the credit is exhausted before the annuity ceases, subsequent payments on account of the annuity will be debited to Profit and Loss Account.

CHAPTER XXII.

Dissolution of partnership—How effected—Provisions of Partnership Act, 1890, for settling accounts after dissolution—Accounts required to record results of dissolution—Examples—Decision in *Garner v. Murray*—Its effect illustrated.

Q. How may a partnership be dissolved?

A. A partnership may be dissolved—

1. By effluxion of time, if entered into for a fixed term.
2. By notice given by one of the partners if the partnership is a partnership at will, that is, for no fixed term.
3. By death or bankruptcy of any partner, in the absence of agreement to the contrary.
4. At the option of the other partners where one partner suffers his share of the partnership property to be charged for his separate debts.
5. By the occurrence of any event which makes the partnership illegal.
6. By judgment of the Chancery Division of the High Court which may be obtained on sufficient cause being shown, such as the lunacy of a partner or the permanent incapacity of a partner to carry out his duties.

Q. What are the provisions of the Partnership Act, 1890, for the settling of accounts between the partners after a dissolution?

A. Section 44 of the Partnership Act, 1890, provides that, in the absence of agreement to the contrary, accounts between the partners after a dissolution shall be settled as follows:—

1. Losses, including losses and deficiencies of capital, shall be paid first out of profits, next out of capital, and lastly, if necessary, by the partners individually

in the proportions in which they were entitled to share profits ;

2. The assets of the firm, including the sums, if any contributed by the partners to make up the losses or deficiencies of capital shall be applied in the following manner and order :—
 - (a) In paying the debts and liabilities of the firm to persons who are not partners therein ;
 - (b) In paying to each partner rateably what is due from the firm to him for advances as distinguished from capital ;
 - (c) In paying to each partner rateably what is due from the firm to him in respect of capital ;
 - (d) The ultimate residue, if any, shall be divided in the proportion in which profits are divisible.

Q. What accounts are necessary to record the result of a dissolution of partnership and to close the partnership books ?

A. The following method is usually adopted :—

1. Transfer all assets, other than cash, to the debit of a Realization Account.
2. Debit Cash and credit Realization Account with the amounts which the assets realize.
3. Debit Realization Account and credit Cash with the expenses of realization.
4. Debit Creditors' Accounts and credit Realization Account with any discounts received.
The balance of Realization Account will represent the profit or loss on realization, and will be transferred to the partners' Capital Accounts in the proportions in which they share profits or losses.
5. Debit Creditors' Accounts and credit Cash with the amounts paid to discharge liabilities.
6. The balance of the Cash Account should then be exactly sufficient to pay the amounts due to the partners on Capital Account, and such payment will complete the closing of the accounts.

If a partner has advanced money to the firm apart from capital, such advance will be paid before capital.

A. and B. are equal partners, and their Balance-Sheet is as under—

DISSOLUTION OF PARTNERSHIP

143

Dr.

A. AND B.'s BALANCE-SHEET.

Cr.

	£	s.	d.		£	s.	d.
To Creditors .	500	0	0	By Cash .	50	0	0
A.'s Capital .	1200	0	0	„ Debtors .	700	0	0
B.'s „ .	900	0	0	„ Stock „	1300	0	0
				„ Plant and Machinery	550	0	0
	2600	0	0		2600	0	0
	<u> </u>	<u> </u>	<u> </u>		<u> </u>	<u> </u>	<u> </u>

They immediately dissolve partnership, and the assets realize the following sums: debtors £600, stock £1100, plant and machinery £300. Discounts were received from creditors amounting to £20, and the expenses of realization were £80. Prepare Ledger Accounts showing the result of the winding-up.

A.—

Dr.

REALIZATION ACCOUNT.

Cr.

	£	s.	d.		£	s.	d.
To Sundry Assets transferred .	2550	0	0	By Cash, viz.—			
To Cash Expenses of Realization .	80	0	0	„ Debtors .	600	0	0
				„ Stock .	1100	0	0
				„ Plant, etc. .	300	0	0
				„ Discounts allowed by Creditors .	20	0	0
				„ Balance carried down .	610	0	0
	2630	0	0		2630	0	0
	<u> </u>	<u> </u>	<u> </u>		<u> </u>	<u> </u>	<u> </u>
To Balance brought down	610	0	0	By A.'s Capital Account .	305	0	0
				„ B.'s ditto .	305	0	0
	610	0	0		610	0	0
	<u> </u>	<u> </u>	<u> </u>		<u> </u>	<u> </u>	<u> </u>

Dr.

SUNDRY CREDITORS' ACCOUNT.

Cr.

	£	s.	d.		£	s.	d.
To Cash .	480	0	0	By Balance .	500	0	0
„ Discount .	20	0	0				
	500	0	0		500	0	0
	<u> </u>	<u> </u>	<u> </u>		<u> </u>	<u> </u>	<u> </u>

DISSOLUTION OF PARTNERSHIP

Dr.

CASH ACCOUNT.

Cr.

	£	s.	d.		£	s.	d.
To Balance .	50	0	0	By Sundry			
„ Realization				Creditors .	480	0	0
Account—				„ Expenses of			
Debtors .	600	0	0	Realization	80	0	0
Stock .	1100	0	0	„ Balance .	1490	0	0
Plant, etc.	300	0	0				
	2050	0	0		2050	0	0
To Balance				By A.'s Capital			
brought for-				Account .	895	0	0
ward .	1490	0	0	„ B.'s ditto .	595	0	0
	1490	0	0		1490	0	0

Dr.

A.'s CAPITAL ACCOUNT.

Cr.

	£	s.	d.		£	s.	d.
To Realization				By Balance			
Account .	305	0	0	brought for-			
„ Balance car-				ward .	1200	0	0
ried down .	895	0	0				
	1200	0	0		1200	0	0
To Cash .	895	0	0	By Balance			
				brought down	895	0	0

Dr.

B.'s CAPITAL ACCOUNT.

Cr.

	£	s.	d.		£	s.	d.
To Realization				By Balance			
Account .	305	0	0	brought for-			
„ Balance car-				ward .	900	0	0
ried down .	595	0	0				
	900	0	0		900	0	0
To Cash .	595	0	0	By Balance			
				brought down	595	0	0

X. and Y. are equal partners, and their Balance Sheet is as under :—

Dr. BALANCE-SHEET OF X. AND Y. Cr.

	£	s.	d.		£	s.	d.
To Creditors .	200	0	0	By Debtors .	300	0	0
„ X's Capital .	500	0	0	„ Fixtures .	700	0	0
„ Y's „ .	400	0	0	„ Stock .	100	0	0
	1100	0	0		1100	0	0

X. and Y. dissolve, and dispose of all assets for £1500. Prepare Ledger Accounts showing the result of the winding-up.

Dr. REALIZATION ACCOUNT. Cr.

	£	s.	d.		£	s.	d.
To Sundry Assets	1100	0	0	By Cash .	1500	0	0
„ X's Capital Acct. £200							
„ Y's do. 200	400	0	0				
	1500	0	0		1500	0	0

Dr. SUNDRY CREDITORS. Cr.

	£	s.	d.		£	s.	d.
To Cash .	200	0	0	By Balance	200	0	0

Dr. CASH ACCOUNT. Cr.

	£	s.	d.		£	s.	d.
To Realization Account .	1500	0	0	By Sundry Creditors .	300	0	0
				„ X's Capital Account .	700	0	0
				„ Y's ditto .	600	0	0
	1500	0	0		1500	0	0

DR.

X.'s CAPITAL ACCOUNT.

CR.

	£	s.	d.		£	s.	d.
To Cash .	700	0	0	By Balance .	500	0	0
				„ Realization Account .	200	0	0
	700	0	0		700	0	0

DR.

Y.'s CAPITAL ACCOUNT.

CR.

	£	s.	d.		£	s.	d.
To Cash .	600	0	0	By Balance .	400	0	0
				„ Realization Account .	200	0	0
	600	0	0		600	0	0

O., P., and Q. are equal partners sharing profits and losses as follows : O. $\frac{1}{2}$, P. $\frac{2}{3}$, Q. $\frac{1}{3}$. Their Balance-Sheet is as under—

DR.

BALANCE-SHEET OF O. P. Q.

CR.

	£	s.	d.		£	s.	d.
Creditors	600	0	0	Debtors	800	0	0
Capital, O. . . .	150	0	0	Stock	450	0	0
„ P. . . .	300	0	0				
„ Q. . . .	200	0	0				
	1250	0	0		1250	0	0

On a dissolution the assets realize : Debtors £600, and stock £250. Prepare accounts showing the result of the winding-up.

A.—

Dr.

REALIZATION ACCOUNT.

Cr.

	£	s.	d.		£	s.	d.
To Sundry Assets .	1250	0	0	By Cash .	850	0	0
	1250	0	0	Balance .	400	0	0
					1250	0	0
Balance .	400	0	0	By O.'s Capital	200	0	0
				„ P.'s „	150	0	0
				„ Q.'s „	50	0	0
	400	0	0		400	0	0

Dr.

SUNDRY CREDITORS.

Cr.

	£	s.	d.		£	s.	d.
To Cash .	600	0	0	By Balance .	600	0	0

Dr.

CASH ACCOUNT.

Cr.

	£	s.	d.		£	s.	d.
To Realization Account .	850	0	0	By Sundry Creditors	600	0	0
„ O.'s Capital Account .	50	0	0	„ P.'s Capital Account	150	0	0
	900	0	0	„ Q.'s ditto	150	0	0
					900	0	0

Dr.

O.'s CAPITAL ACCOUNT.

Cr.

	£	s.	d.		£	s.	d.
To Realization Account .	200	0	0	By Balance .	150	0	0
	200	0	0	„ Cash .	50	0	0
					200	0	0

Dr.		P.'s CAPITAL ACCOUNT.			Cr.	
		£	s.	d.		£ s. d.
To Realization Account .		150	0	0	By Balance .	300 0 0
„ Cash .		150	0	0		
		300	0	0		300 0 0

Dr.		Q.'s CAPITAL ACCOUNT.			Cr.	
		£	s.	d.		£ s. d.
To Realization Account .		50	0	0	By Balance .	200 0 0
„ Cash .		150	0	0		
		200	0	0		200 0 0

It should be noted that in this case the result of the realization is to cause a debit balance of £50 on O.'s account, which amount he pays to the firm in order to settle the accounts.

Q. What is the effect of the decision in the case of Garner v. Murray?

A. The case of *Garner v. Murray* was decided by Mr. Justice Joyce in 1903, and has given rise to much discussion. The case raised a question as to the application of sect. 44 of the Partnership Act, 1890, where there are two solvent partners each having a credit balance on Capital Account, and one insolvent partner whose Capital Account is in debit, and the realization of the partnership assets results in a loss. The practice formerly was to debit each partner with his proportion of the loss, thus reducing the credits on the solvent partners' accounts and increasing the debit on the insolvent partner's account. The total debit on the insolvent partner's account was then treated as a loss as between the solvent partners, and their accounts were debited with the amount thereof in the proportion in which they shared profits and losses. The payment of the balances remaining to the credit of the solvent partners closed the accounts.

In the case of *Garner v. Murray* it was held that in the absence of agreement the solvent partners are to contribute cash to the extent of their share of the loss, and that the balance of cash remaining after paying the creditors of the firm is to be

divided between the solvent partners rateably in proportion to their capitals.

[The correct interpretation of this decision is a matter upon which there is some difference of opinion amongst professional accountants. The following examples of the method formerly adopted, and of one of the suggested methods of giving effect to the decision in *Garner v. Murray*, are, however, given for the information and guidance of students. For a full discussion of the various aspects of the subject, the student is referred to the works of Professor Lawrence R. Dicksee, M.Com. F.C.A., Messrs. Spicer and Pegler, F.C.A., and to the correspondence columns of the *Accountant*—particularly the contributions of Professor Stanley S. Dawson, M.Com. F.C.A.]

A., B., and C. are equal partners, and their Balance-Sheet is as under—

	£	s.	d.		£	s.	d.
Sundry Creditors	600	0	0	Debtors	400	0	0
A.'s Capital	500	0	0	Stock	800	0	0
B.'s " "	300	0	0	C.'s Capital overdrawn	200	0	0
	1400	0	0		1400	0	0

C. is insolvent, and is unable to make any contribution to the partnership, which is dissolved. The assets realize: debtors £300, stock £600. Prepare accounts showing the result of the winding-up—

1st, by the method formerly adopted;

*2nd, by the method laid down in *Garner v. Murray*.*

A.—1. The method formerly adopted—

Dr.	REALIZATION ACCOUNT.				Cr.		
	£	s.	d.		£	s.	d.
To Sundry Assets	1200	0	0	By Cash	900	0	0
				" A. 1 share of loss	100	0	0
				" B. ditto	100	0	0
				" C. ditto	100	0	0
	<u>1200</u>	<u>0</u>	<u>0</u>		<u>1200</u>	<u>0</u>	<u>0</u>

DISSOLUTION OF PARTNERSHIP

DR.		CREDITORS.			CR.	
	To Cash .	£	s.	d.		£ s. d.
		600	0	0	By Balance .	600 0 0

DR.		CASH.			CR.	
	To Realization Account .	£	s.	d.		£ s. d.
		900	0	0	By Creditors	600 0 0
					„ A. . .	250 0 0
					„ B. . .	50 0 0
		<u>900</u>	<u>0</u>	<u>0</u>		<u>900 0 0</u>

DR.		A's CAPITAL ACCOUNT.			CR.	
	To Realization Account .	£	s.	d.		£ s. d.
	„ C. half loss	100	0	0	By Balance .	500 0 0
	„ Cash .	150	0	0		
		250	0	0		
		<u>500</u>	<u>0</u>	<u>0</u>		<u>500 0 0</u>

DR.		B's CAPITAL ACCOUNT.			CR.	
	To Realization Account .	£	s.	d.		£ s. d.
	„ C. half loss	100	0	0	By Balance .	300 0 0
	„ Cash .	150	0	0		
		50	0	0		
		<u>300</u>	<u>0</u>	<u>0</u>		<u>300 0 0</u>

Dr.

C.'s CAPITAL ACCOUNT.

Cr.

	£	s.	d.		£	s.	d.
To Balance .	200	0	0	By A. $\frac{1}{2}$.	150	0	0
„ Realization Account .	100	0	0	„ B. „ .	150	0	0
	<u>300</u>	<u>0</u>	<u>0</u>		<u>300</u>	<u>0</u>	<u>0</u>

2. Garner v. Murray method.

Dr.

REALIZATION ACCOUNT.

Cr.

	£	s.	d.		£	s.	d.
To Sundry Assets .	1200	0	0	By Cash .	900	0	0
	<u>1200</u>	<u>0</u>	<u>0</u>	„ Balance c/o	300	0	0
					<u>1200</u>	<u>0</u>	<u>0</u>
To Balance = Loss	300	0	0	By Cash—			
„ C.'s Capital Account: Balance transferred .	200	0	0	A. $\frac{1}{2}$ of Loss .	100	0	0
	<u>500</u>	<u>0</u>	<u>0</u>	B. ditto .	100	0	0
				„ A.'s Capital Account: Balance transferred .	187	10	0
				„ B.'s ditto .	112	10	0
					<u>500</u>	<u>0</u>	<u>0</u>

Dr.

CREDITORS.

Cr.

	£	s.	d.		£	s.	d.
To Cash .	600	0	0	By Balance.	600	0	0

DISSOLUTION OF PARTNERSHIP

DR.		CASH ACCOUNT.			CR.	
		£	s.	d.		£ s. d.
To Realization Account .		900	0	0	By Creditors .	600 0 0
„ A.'s share of loss, viz.— ↓ of 300 .		100	0	0	„ Balance .	500 0 0
„ B.'s ditto .		100	0	0		
		1100	0	0		1100 0 0
		<u>500</u>	<u>0</u>	<u>0</u>		
To Balance .		500	0	0	By A. share .	312 10 0
					„ B. „ „ .	187 10 0
		<u>500</u>	<u>0</u>	<u>0</u>		<u>500 0 0</u>

DR.		A.'s CAPITAL ACCOUNT.			CR.	
		£	s.	d.		£ s. d.
To Cash of £500 .		312	10	0	By Balance .	500 0 0
„ Realization Account— Balance transferred		187	10	0		
		<u>500</u>	<u>0</u>	<u>0</u>		<u>500 0 0</u>

DR.		B.'s CAPITAL ACCOUNT.			CR.	
		£	s.	d.		£ s. d.
To Cash of £500 .		187	10	0	By Balance .	300 0 0
„ Realization Account— Balance transferred		112	10	0		
		<u>300</u>	<u>0</u>	<u>0</u>		<u>300 0 0</u>

Dr.

C.'s CAPITAL ACCOUNT.

Cr.

	£	s.	d.		£	s.	d.
To Balance .	200	0	0	By Realization Account— Balance transferred	200	0	0

It will be observed that by adopting the first method A. receives £250 and B. receives £50. By the second method A. receives £212 10s. and B. £87 10s. (after allowing for the £100 paid in by each of them).

The above method of interpreting the decision in *Garner v. Murray* may be stated thus—

1. Each solvent partner contributes a sum in cash equal to his proportion of the loss, *i.e.* A. and B. each contribute one-third of £300.
2. The cash so contributed is debited to Cash Account, and credited to Realization (or Deficiency) Account.
3. The balance of cash after payment of creditors is divided between the solvent partners rateably in proportion to their respective capitals, *viz.* A. £500, B. £300. Therefore A. receives $\frac{5}{8}$ ths and B. $\frac{3}{8}$ ths of £500.
4. The balances remaining on the Capital Accounts of A., B., and C. are transferred to Realization Account to close the accounts.

CHAPTER XXIII.

Limited partner—Definition—Registration of limited partnerships—How effected—Effect of withdrawal of capital or taking part in management—Differences connected with limited partnerships—How settled—Negative effect of death, bankruptcy, or lunacy of a limited partner—Partnership at will—Dormant partner—Partner by estoppel.

Q. What is a Limited Partner ?

A. A Limited Partner is a person who contributes capital to a firm in consideration of receiving a share of the profits, without being liable for the debts and obligations of the firm beyond the amount of his contribution.

Q. What are the regulations affecting the registration of a Limited Partnership ?

A. A Limited Partnership must be registered with the Registrar of Companies, otherwise it will be deemed to be a general partnership, and every limited partner will be deemed to be a general partner.

To obtain registration the following particulars must be sent to the Registrar: (1) the firm's name; (2) the general nature of the business; (3) the principal place of business; (4) the full name of each partner; (5) the term for which the partnership is entered into, and the date of its commencement; (6) a statement that the partnership is limited, and the description of every limited partner as such; (7) the sum contributed by each limited partner, and whether paid in cash, or how otherwise.

Changes in any of these matters must be notified to the Registrar within seven days.

Q. What is the effect of the withdrawal by a limited partner of a part of his contribution to the capital of the firm ?

A. If a limited partner receives back directly or indirectly any part of his capital, he is liable for the debts and obligations of the firm to the extent of the amount withdrawn.

Q. Can a limited partner take part in the management of the partnership business?

A. No; if a limited partner takes part in the management of the business he is liable for the debts and obligations incurred during the period that he does so to the same extent as if he were a general partner.

Q. In the absence of agreement, express or implied, how are differences connected with a limited partnership to be settled?

A. The Limited Partnership Act provides that, subject to any agreement, express or implied—

- (a) Any difference connected with the partnership business as to ordinary matters may be decided by a majority of the general partners.
- (b) A limited partner may, with the consent of the general partners, assign his share.
- (c) The general partners shall not be entitled to dissolve if a limited partner charges his share for his separate debt.
- (d) A new partner may be introduced without the consent of the limited partners.
- (e) A limited partner is not entitled to dissolve the partnership by notice.

Q. Does the death, bankruptcy, or lunacy of a limited partner dissolve the partnership?

A. The death or bankruptcy of a limited partner does not dissolve the partnership, nor is the lunacy of a limited partner sufficient ground for dissolution of the partnership by the Court, unless the lunatic's share cannot otherwise be ascertained and realized.

Define the following terms: "Partnership at Will," "Dormant Partner," "Partner by Estoppel."

A. "Partnership at Will" applies to a partnership the duration of which is not fixed, and which may therefore be dissolved at any time at the will of any partner.

"Dormant Partner" is an ordinary partner and liable as such, but is not known to the world as a partner.

"Partner by Estoppel" is a person who is not a partner of a firm, but has rendered himself liable as such to some person or persons by holding himself out as a partner, thereby inducing them to give credit to the firm.

CHAPTER XXIV.

Total Accounts—Meaning and purpose of—Total Debtors' and Creditors' Accounts—Trial Balance from Private Ledger—Specimen Total Accounts—Sources of entries therein—Transfer Journal, form of—Cash Book with columns for Bought and Sold Ledger items—Self-balancing Ledgers—Adjustment Accounts—Sectional balancing—Summary balance books.

Q. What are Total Accounts, and what purposes do they serve?

A. Total Accounts are accounts which record in a convenient form the totals of the items posted to the debit and credit of the accounts in any particular Ledger, and are so arranged that the balance of the Total Account on any given date should agree with the total balances abstracted from the Ledger to which the Total Account relates.

Their purposes are—

1. To facilitate the preparation of a Trial Balance, Profit and Loss Account, and Balance-Sheet when the accounts are so numerous as to necessitate the use of several Ledgers.
2. To localize errors.
3. To check the accuracy of the postings in any Ledger.

Q. What Total Accounts would be required to facilitate the balancing of the books in a business where three Ledgers are in use, viz. Private or General Ledger, Bought Ledger, and Sold Ledger?

A. It must be assumed that all impersonal accounts are kept in the Private Ledger, and that only personal accounts with creditors and debtors are kept in the Bought and Sold Ledgers. In such a case two Total Accounts will be required, viz. a Total Creditors' Account and a Total Debtors' Account, each of which may be kept in the Private Ledger. The Total Creditors' Account will contain a summary of the contents of the Bought Ledger, and the Total Debtors' Account will contain

a summary of the contents of the Sold Ledger, and the balances of each of the Total Accounts should agree with the total of the balances abstracted from each of the Ledgers.

Q. When the Private Ledger contains Total Accounts relating to each of the other Ledgers, what procedure is followed in preparing a Trial Balance?

A. The following is the procedure :—

1. See that the balances abstracted from the Bought and Sold Ledgers agree with the balances of the Total Accounts in the Private Ledger.
2. Prepare a Trial Balance from the Private Ledger, which will contain all the materials, including the total amount of debtors and creditors.

Draft a specimen Total Debtors' Account as it would appear in the Private Ledger.

A.—

DR.		TOTAL DEBTORS' ACCOUNT.				CR.			
1910.		£	s.	d.	1910.		£	s.	d.
Jan. 1	To Balance	4000	0	0	Jan. 31	By Cash	3700	0	0
" 31	" Sales	6500	0	0		" Discount	74	0	0
	" Dishonoured Bills	67	0	0		" Returns and Allowances	120	0	0
						" Bills Receivable	450	0	0
						" Bad Debts	42	0	0
						" Transfers	28	0	0
						" Balance	6158	0	0
		<u>10,567</u>	<u>0</u>	<u>0</u>			<u>10,567</u>	<u>0</u>	<u>0</u>
1910.		£	s.	d.	1910.		£	s.	d.
Feb. 1	To Balance	6158	0	0					

State the sources of the entries in the foregoing account.

A. The debit items are obtained as follows :—

1. The opening balance is the total of the Sales Ledger balances on Jan. 1, 1910.
2. Sales from the Sales Day Book.
3. Dishonoured bills, by analyzing the entries in the Transfer Journal.

The credit items are obtained as follows :—

1. Cash from the Cash Book, which should be provided

TOTAL CREDITORS' ACCOUNT

with an additional column on the debit side for Sales Ledger items.

2. Discount from the Discount column on the debit side of the Cash Book.
3. Returns and Allowances from the Returns Inwards Book.
4. Bills Receivable from the Bills Receivable Book.
5. Bad Debts from the analysis of the Transfer Journal.
6. The transfers are items transferred from accounts in one Ledger to accounts in another Ledger. All such transfers should be passed through the Transfer Journal, from which the total amount will be obtained.

Draft a specimen Total Creditors' Account, as it would appear in the Private Ledger.

A.—

DR.		TOTAL CREDITORS' ACCOUNT.						CR.	
1910.		£	s.	d.	1910.		£	s.	d.
Jan. 31	To Cash	3100	0	0	Jan. 1	By Balance	3400	0	0
	„ Discount	40	0	0	„ 31	„ Purchases	4300	0	0
	„ Returns	110	0	0					
	„ Bills Pay- able	380	0	0					
	„ Transfers	23	0	0					
	„ Balance c/f	4047	0	0					
		7700	0	0			7700	0	0
					Feb. 1	By Balance	4047	0	0

State the sources of the entries in the foregoing account.

A. The debit items are obtained as follows :—

1. Cash from the Cash Book, which should be provided with an additional column on the credit side for Bought Ledger items.
2. Discount from the Discount Column on the credit side of the Cash Book.
3. Returns from the Returns Outwards Book.
4. Bills Payable from the Bills Payable Book.
5. Transfers from the analysis of the Transfer Journal.

The credit items are obtained as follows :—

1. The opening balance is the total of the Bought Ledger balances on January 1, 1910.
2. Purchases from the Purchases Book.

Draft a form of Transfer Journal suitable for a business where three Ledgers, Private, Bought, and Sold, are in use.

A.—

DR.

TRANSFER JOURNAL.

CR.

Private. Ledger.	Bought Ledger.	Sold Ledger.	Led. Fol.	Date.	Particulars.	Led. Fol.	Private Ledger.	Bought Ledger.	Sold Ledger.

This book is for recording those items for which there is no other book of original entry.

Journal entries affecting the Private Ledger only, will be passed through the ordinary Journal.

Draft a form of Cash Book for use where three Ledgers are kept, viz. Private, Bought, and Sold.

A.—

DR.

CASH BOOK.

CR.

Date.	Particulars.	Led. No.	Sales Ledger.		Bank.	Date.	Particulars.	Led. No.	Bought Led.		Bank.
			Dis.	Cash.					Dis.	Cash.	
			£ s. d.	£ s. d.	£ s. d.				£ s. d.	£ s. d.	£ s. d.

The above form is intended for use where all cash received is paid into the Bank, and all payments (other than Petty Cash Payments) are by cheque. Receipts and payments on Private Ledger Accounts would only appear in the Bank columns.

Q. What is a Self-Balancing Ledger ?

A. A Self-Balancing Ledger is one which contains within itself the materials for extracting a trial balancing without regard to the accounts in other Ledgers.

Q. How may a Ledger be rendered self-balancing ?

A. A Ledger may be rendered self-balancing by means of an Adjustment Account, which contains in total on the debit side the items posted to the credit of the accounts throughout

the Ledger, and on the credit side the items posted to the debit of the accounts throughout the Ledger.

Draft a specimen Adjustment Account in the Sales Ledger.

A.—

DR. ADJUSTMENT ACCOUNT (IN SALES LEDGER). CR.

1910.		£	s.	d.	1910.		£	s.	d.
Jan. 31	To Cash . .	3700	0	0	Jan. 1	By Balance .	4000	0	0
	„ Discount	74	0	0	„ 31	„ Sales . .	6500	0	0
	„ Returns	120	0	0		„ Dishonoured Bills .	67	0	0
	„ Bills Receivable	450	0	0					
	„ Bad Debts	42	0	0					
	„ Transfers from Bought Ledger	23	0	0					
	„ Balance	6158	0	0					
		10,567	0	0			10,567	0	0
					Feb. 1	„ Balance .	6158	0	0

Draft a specimen Adjustment Account in a Bought Ledger.

A.—

DR. ADJUSTMENT ACCOUNT (IN BOUGHT LEDGER). CR.

1910.		£	s.	d.	1910.		£	s.	d.
Jan. 1	To Balance .	3400	0	0	Jan. 31	By Cash . .	3100	0	0
„ 31	„ Purchases	4300	0	0		„ Discount	40	0	0
						„ Returns .	110	0	0
						„ Bills Payable	380	0	0
						„ Transfers to Sales Ledger	23	0	0
						„ Balance . c/f	4047	0	0
		7700	0	0			7700	0	0
Feb. 1	„ Balance . b/f	4047	0	0					

Q. Is it desirable to keep Adjustment Accounts in each of the Ledgers?

A. No; it is not generally considered desirable to keep Adjustment Accounts in each Ledger. It is sufficient to have Total Accounts for each Ledger, either in the Private Ledger or in a book specially ruled for the purpose. The Total Accounts should be written up and kept under the control of some responsible person, in order that he may keep an effective check on the accuracy of the work performed by the various Ledger clerks.

Q. In businesses where the Ledger accounts are so numerous as to necessitate the use of several Ledgers, how should the Ledgers be divided?

A. Where the Ledger Accounts are very numerous the division of the Ledgers will depend upon the nature and requirements of each business. In some cases it is convenient to divide the Bought and Sold Ledgers into alphabetical sections, thus: A—E, F—K, L—R, S—Z, and in this way provide for four Bought and four Sold Ledgers. In other cases it is more convenient to divide the Ledgers into separate sections for Town, Country, and Foreign accounts, the sectional Ledgers being subdivided alphabetically, if necessary, thus—

Town Section—			
Bought Ledgers	.	.	A—E, F—K, L—R, S—Z.
Sold Ledgers	.	.	Do. Do. Do. Do.

Similarly the Country and Foreign Ledgers would be divided and subdivided.

Q. What is meant by Sectional Balancing?

A. Sectional Balancing is an extension of the system of balancing a number of Ledgers separately by means of Total Accounts for each Ledger. It refers to the separate balancing of Ledgers which are divided into sections, *e.g.* Town Sales, Country Sales, Town Bought, Country Bought, etc. In order to ascertain the totals of the items posted to the debit and credit of all the accounts in each Ledger, a system of dissecting the items is necessary. The dissection may be effected by the use of separate Day Books for each Ledger, and by analyzing the items posted from other books, *e.g.* Cash Book, Journal, etc. The dissected figures will be entered on specially ruled sheets, and the totals finally entered in a Summary Book, thus—

D.A.B.

M

Another Summary Book would be required for the Bought Ledgers.

Q. What is meant by the term "Internal Check" as applied to Book-keeping?

A. The term "Internal Check" refers to that part of the organization of Book-keeping which provides for a regular and systematic check on the accuracy of the records, so as to secure the speedy detection and rectification of errors, and at the same time to minimize the possibility of fraudulent entries being made.

Q. In arranging a system of "Internal Check," what general rules should be followed?

A. The following are some of the rules which should be observed :—

1. All cash received should be paid into the Bank daily, and all payments other than petty cash, which should be kept on the Imprest System.
2. The cashier should not be allowed to make entries in the Ledgers.
3. The balance at the Bank as per the Bank Pass Book should be regularly agreed with the Cash Book, and a Reconciliation Statement prepared, when necessary.
4. All postings to the Ledgers should be called over daily, if possible, by clerks who have not made any of the entries.
5. All invoices should be compared with the order and goods received books, and initialled by the Manager. The calculations and totals will then be checked in the office before the invoices are entered in the Purchases Book.
6. The calculations on all invoices sent out should first be checked by the entering clerk, before being entered in the Sales Book.
7. All Ledgers should be rendered self-balancing, and the Ledger balances should be periodically checked by means of the Summary Books or Test Journals.

Q. What is a Test Journal?

A. A Test Journal is a book provided with columns for the purpose of dissecting the postings to any particular Ledger or group of Ledgers. Its use is to check both the total and individual balances in any Ledger. The following is a form of Test Journal for a Sales Ledger :—

CHAPTER XXV.

Single-entry book-keeping—Meaning and purpose of—How single-entry books are posted—Statement of Affairs—How prepared—Difference between Balance-Sheet and Statement of Affairs—Statement of profit from single-entry books—Disadvantages of single entry—Conversion of books from single entry to double entry—Preparation of Trading, Profit and Loss Accounts, and Balance-Sheet from single-entry records.

Q. What is meant by the term "Single-entry Book-keeping"?

A. The term "Single-entry Book-keeping" is usually applied to any incomplete method of recording transactions. Single-entry accounts are generally confined to personal accounts with debtors and creditors and a Cash Account, no other real accounts and no nominal accounts being kept.

Q. What is the main purpose of single entry book-keeping?

A. The main purpose of single-entry book-keeping is to enable a trader to ascertain, from his books, how much is due to him from his debtors and how much he owes to his creditors. Prudence and necessity oblige him to keep also a Cash Account.

Q. What books are used in single-entry book-keeping?

A. Purchases and Sales Books, Bills Books, Cash Book, and Ledger are used in single-entry book-keeping.

Q. How are these books posted by single entry?

A. The only items in the books of original entry which are posted to the Ledger are those which affect the personal accounts with debtors and creditors. Therefore, the items in the Purchases Book are posted to the credit of personal accounts, but the total amount is not posted to the debit of a Purchases Account. Similarly, the items in the Sales Book are

posted to the debit of personal accounts, but the total is not posted to the credit of a Sales Account. Cash received from debtors will be posted to credit of the personal accounts, but items such as cash sales are not posted. Cash paid to creditors will be debited to personal accounts, but payments for cash purchases, wages, expenses, etc., are not posted.

Q. How can a trader whose books are kept by single entry ascertain the state of his affairs?

A. The financial position of a trader whose books contain single-entry records can be approximately ascertained by means of a Statement of Affairs.

Q. What is a Statement of Affairs, and how is it prepared?

A. A Statement of Affairs is a statement, prepared from single-entry records, setting forth the liabilities and assets of a person on a given date.

The method of preparing a Statement of Affairs is as follows:—

1. See that all liabilities are included in the Ledger Accounts, and that all personal accounts are fully posted as regards purchases, sales, returns, cash, and discounts, and bring down the balances.
2. Balance the Cash Book and verify the correctness of the balance.
3. Ascertain the value of the stock-in-trade.
4. Ascertain the values of all other assets, such as fixtures, furniture, plant, machinery, etc.
5. Arrange the items in the form of a Balance-Sheet, calling the excess of assets over liabilities Capital.

You are asked by A. Breeze, whose books are kept by single entry, to prepare a statement of his affairs as at December 31, 1909. An examination of the accounts showed that there was due to Creditors £650, and that the total amount due from Debtors amounted to £780; Cash in hand amounted to £17, and the balance at the Bank as certified by the manager was £213. Stock was taken and valued at £1220, and other assets were valued as follows: Furniture £25, Machinery £95. Prepare a Statement of Affairs.

A.—

STATEMENT OF AFFAIRS OF A. BREEZE, Dec. 31, 1909.

Liabilities.	£	s.	d.	Assets.	£	s.	d.
To Creditors	650	0	0	Cash in hand	17	0	0
" Balance, viz.—				" at Bank	213	0	0
A. Breeze, Capital	1700	0	0	Debtors	780	0	0
				Stock	1220	0	0
				Furniture	25	0	0
				Machinery	95	0	0
	2350	0	0		2350	0	0

Q. What is the difference between a Balance-Sheet and a Statement of Affairs?

A. A Balance-Sheet is a collection of balances appearing in the Ledger on a given date so arranged as to show the financial position of a business.

A Statement of Affairs is a statement of the liabilities and assets of a business on a given date, the items therein being partly ascertained from the Ledger and partly from other sources of information.

Q. How is a Statement of Profit prepared from books kept by single entry?

A. A Statement of Profit is prepared as follows:—

Enter on—

Dr. side:

- (a) The liabilities to Creditors at the *end* of the period.
- (b) The amount of Capital at the *commencement* of the period as shown by the previous Statement of Affairs.

Cr. side:

- (a) The Assets at the *end* of the period less any reserves or depreciation agreed upon.
- (b) The drawings during the period.

The balance of the Statement represents profit for the period, and in the case of a firm will be debited with interest and the balance divided in the agreed proportions.

On June 30, 1910, A. Breeze's position was as follows: Creditors, £420; Cash in hand, £23; Cash at Bank, £240; Debtors, £670; Stock, £1530; Furniture, £25; Machinery, £95. His drawings amounted to £150, and he decided to write off 10 per cent. per annum for depreciation of Machinery and 5 per

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cent. per annum for depreciation of Furniture. Prepare a Statement of Profit and a Statement of Affairs.

A.—

DR.	STATEMENT OF PROFIT, June 30, 1910.						CR.
	£	s.	d.		£	s.	d.
To Creditors	420	0	0	Cash in hand	23	0	0
„ Capital, Dec. 31, 1909	1700	0	0	„ at Bank	240	0	0
„ Profit for half-year .	607	12	6	Debtors	670	0	0
				Stock	1530	0	0
					£	s.	d.
				Furniture	25	0	0
				Less Deprecia- tion	0	12	6
						24	7 6
				Machinery	95	0	0
				Less Deprecia- tion	4	15	0
						90	5 0
				Drawings	150	0	0
	2727	12	6		2727	12	6

A. BREEZE'S STATEMENT OF AFFAIRS, June 30, 1910.

Liabilities.				£	s.	d.	Assets.				£	s.	d.	
To Creditors	.	.	.	420	0	0	Cash in hand	.	.	.	23	0	0	
	£	s.	d.				„ at Bank	.	.	.	240	0	0	
„ Capital—							Sundry Debtors	.	.	.	670	0	0	
Balance, Dec.							Stock	.	.	.	1530	0	0	
31, 1909	.	1700	0	0				£	s.	d.				
Add profit for							Furniture	.	25	0	0			
half-year	.	607	12	6			Less Deprecia-							
							tion	.	0	12	6			
		2307	12	6								24	7	6
Less Drawings		150	0	0			Machinery	.	95	0	0			
					2157	12	6	Less Deprecia-						
							tion	.	4	15	0			
												90	5	0
					2577	12	6					2577	12	6

Q. What are the disadvantages of single-entry as compared with double-entry book-keeping?

A. The disadvantages of single entry are—

- (1) As the twofold effect of all transactions is not recorded, the arithmetical accuracy of the books cannot be proved by means of a Trial Balance.

- (2) With the exception of Cash Account no real accounts are kept, and there is consequently no reliable and continuous record of the various kinds of property belonging to the business.
- (3) As no nominal accounts are kept a Profit and Loss Account—showing how the profit has been derived and the various items of expenditure incurred—cannot be prepared. Consequently there is no means of comparing the expenses of one year with those of another, extravagant expenditure remains undetected, and no opportunity is afforded of relinquishing the unprofitable part of a business or developing the more profitable part.

Q. A. Breeze having kept his books by single entry wishes in future to adopt the double-entry system. What steps must he take in order to carry out his wishes?

A. A Statement of Affairs must first be prepared, showing his position. The figures in this statement should then be journalized, thus—

1910.		£ s. d.			£ s. d.		
June 30	Sundries—	Dr.					
	To Sundries						
	Cash	23	0	0			
	Bank	240	0	0			
	Debtors	670	0	0			
	Stock	1580	0	0			
	Furniture	24	7	6			
	Machinery	90	5	0			
	To Creditors				420	0	0
	„ Capital				2157	12	6
	For assets and liabilities at this date						

These items must be posted to Ledger Accounts, and thenceforward every transaction recorded in the books of original entry must be posted on the double-entry principle.

Q. What steps must be taken to prepare a Trading and Profit and Loss Account and Balance-Sheet from single-entry records?

A. In order to prepare Trading and Profit and Loss Account and Balance-Sheet from single-entry records it is necessary to use the last Statement of Affairs as a starting-point, and then convert the single-entry records into double-entry records. The procedure is as follows:—

1. Journalize the last Statement of Affairs and post all

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items to accounts opened in the Private Ledger, using total accounts for Debtors and Creditors.

2. Analyze the postings Dr. and Cr. to all Ledger Accounts during the period.

The analysis of Debtors' Accounts will give—

Dr. side :

Total credit sales for the period.

Cr. side :

(a) Total cash received from debtors.

(b) Total discounts allowed.

(c) Total returns inwards and allowances.

(d) Total bills receivable.

(e) Total bad debts written off.

The analysis of the Creditors' accounts will give—

Dr. side :

(a) Total cash paid to creditors.

(b) Total discounts received.

(c) Total returns outwards and allowances.

(d) Total bills payable.

Cr. side :

Total credit purchases for the period.

3. Journalize and post the above totals to Total Debtors' and Creditors' Accounts and to other appropriate accounts to be opened in the Private Ledger, viz. Total Cash Account, Purchases, Sales, Discounts, Returns, Bills Receivable, Bills Payable, Bad Debts Accounts.

4. Analyze all unposted items Dr. and Cr. in the Cash Book.

The analysis of the Dr. side will give—

(a) Total cash sales.

(b) Total bills receivable collected.

(c) Total additions to Capital (if any).

(d) Total sales of furniture, machinery, etc. (if any).

The analysis of the Cr. side will give—

(a) Total cash purchases.

(b) Total bills payable paid.

(c) Total withdrawals of Capital.

(d) Total amounts paid on nominal accounts, viz. rents, rates and taxes, wages, salaries, trade expenses, carriage, etc., etc.

These items will be journalized and posted to the debit and credit of the Total Cash Account in the Private Ledger and to the debit and credit of the other accounts affected, viz. Sales, Bills Receivable, Capital, Furniture, Machinery, etc., Purchases,

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Bills Payable, Drawings, and the various nominal accounts. The double-entry will now be completed; a Trial Balance can be prepared, and after the value of stock on hand has been ascertained a Trading and Profit and Loss Account and Balance-Sheet can be prepared.

Draft a pro formâ total Cash Account opened in the Private Ledger in the course of converting Single-Entry into Double-Entry records :—

A.—

Dr.		TOTAL CASH ACCOUNT.						Cr.			
1810.		Jnl.	£	s.	d.	1910.		Jnl.	£	s.	d.
Jan. 1	To Balance as per state- ment of affairs .		430	0	0	June 30	By Cash Pur- chases .		120	0	0
June 30	„ Cash Sales .		780	0	0	„	„ Bills Pay- able .		245	0	0
„	„ Bills Re- ceivable .		370	0	0	„	„ Drawings Account .		300	0	0
„	„ Sundry Debtors .		3520	0	0	„	„ Rent, Rates, & Taxes .		110	0	0
						„	„ Wages .		480	0	0
						„	„ Salaries .		320	0	0
						„	„ Trade Ex- penses .		95	0	0
						„	„ Carriage .		73	0	0
						„	„ Office Ex- penses .		48	0	0
						„	„ Sundry Creditors .		2630	0	0
						„	„ Balance . c/d		679	0	0
			<u>5100</u>	<u>0</u>	<u>0</u>				<u>5100</u>	<u>0</u>	<u>0</u>
1910.											
June 30	To Balance . b/d		679	0	0						

CHAPTER XXVI.

Fixed assets—Floating assets—Liquid assets—Bases of valuation of fixed and floating assets—Capital and Revenue, definition of—Capital expenditure and Revenue expenditure—Receipts and Payments Account—Income and Expenditure Account—Items to be charged to Trading Account—Pro formâ Manufacturing and Trading Accounts.

Q. What are Fixed Assets, Floating Assets, Liquid Assets ?

A. Fixed Assets are those assets which are acquired and intended to be retained permanently for the purpose of enabling a business to be profitably carried on, such as land and buildings, plant and machinery, goodwill.

Floating Assets are those assets which form the subject of trading, and are constantly changing from one kind to another, such as goods, debts, cash.

Liquid Assets are those which are represented by cash, or something that can readily be converted into cash, should the necessity therefor arise.

Q. What is the basis of valuation of fixed and floating assets respectively ?

A. Fixed assets are valued on the basis of cost, subject to allowance for depreciation.

Floating assets are valued on the basis of market price, but when the market price is above the cost price, the assets are valued at cost.

Q. A. purchased machinery on Jan. 1 for £1000. On Dec. 31 of the same year he makes out his Balance-Sheet, and then learns that the same machinery can be purchased new for £700. At what value should he include the asset in his Balance-Sheet ?

A. Machinery is a fixed asset, and should be valued on the basis of cost. The value on Dec. 31 is therefore £1000, less an allowance for depreciation by reason of wear and tear.

Define Capital and Revenue.

A. Capital is the amount invested in a business ; Revenue is the income derived from the use or investment of Capital.

Q. How can Capital Expenditure be distinguished from Revenue Expenditure ?

A. Expenditure which results in an addition to the value of assets which represent the capital invested in a business is Capital Expenditure, and should be treated as such.

Expenditure which does not result in an addition to the value of assets, but merely maintains the value at some existing figure is Revenue Expenditure, and should be charged against the profits earned.

Q. Which of the following are Capital and which are Revenue Expenditure—Repairs to Plant, Additions to Leasehold Buildings, Repairs to Freehold Buildings, Additions to Freehold Buildings ?

A. Repairs to plant is a Revenue Expenditure, and should be charged to Profit and Loss, and not to Plant Account.

Additions to Leasehold Buildings is a Capital Expenditure, and should be charged to Leasehold Buildings Account. The total debit on this account must, however, be written off to Profit and Loss during the period covered by the lease.

Repairs to Freehold Buildings is a Revenue Expenditure, and should be charged to Profit and Loss unless they result in an addition to their value.

Additions to Freehold Buildings is Capital Expenditure.

Q. What is a Receipts and Payments Account ?

A. A Receipts and Payments Account is a summary of the Dr. and Cr. items in the Cash Book during a given period. All receipts and payments, whether on account of capital or revenue, are included.

Q. What is an Income and Expenditure Account ?

A. An Income and Expenditure Account is a Revenue Account, and includes all income earned during a given period (whether actually received or not), and all expenditure incurred in earning the income and chargeable against it.

Q. What is the object of preparing a Trading or Manufacturing Account ?

A. The object is to provide a means of comparing the gross profit on sales during one period with that of another period, in order that prices may be readjusted if necessary. It is

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therefore important to establish a basis of comparison which is constant in character. This is effected by charging to the account similar items of expenditure each year.

Q. What items of expenditure should be included in a Trading or Manufacturing Account?

A. Only those items should be charged to Trading or Manufacturing Account which directly add to the cost of the goods, and which vary in amount according to the quantity of goods bought, *e.g.* Carriage inwards.

Prepare pro formâ Manufacturing and Trading Accounts.

A.—

DR.			MANUFACTURING ACCOUNT.			CR		
			£	s.	d.			
1909.						1909.		
Jan. 1	To Stocks on hand—					Dec. 31	By Sales .	
	Materials .					"	" Stocks on hand—	
	Unfinished Goods .						Materials .	
							Unfinished	
Dec. 31	To Purchases .							
"	" Wages .							
"	" Gross Profit .							
			<u> </u>	<u> </u>	<u> </u>			

[illegible]

CHAPTER XXVII.

Joint stock companies—Definition—Registered companies—Memorandum and Articles of Association—Meaning of limited liability—Private companies and public companies—Privileges given to private companies—Difference between general partnerships and public companies—Definitions of mortgage, debenture; nominal, issued, subscribed, called-up, paid-up, uncalled and unpaid capital; ordinary, preference, cumulative preference, deferred and founder's shares—Difference between stock and shares—Definition of share warrants to bearer.

Q. What is a Joint Stock Company?

A. A Joint Stock Company is an association of individuals possessing a common capital usually divided into shares of which each member possesses one or more.

Q. What are Registered Companies?

A. Registered Companies are those which are incorporated by registration under the Companies (Consolidation) Act, 1908. A company may be registered with limited or unlimited liability on the part of the members.

Q. How is the registration of a company effected?

A. The registration of a company is effected by filing a Memorandum of Association and certain other documents with the Registrar of Companies, paying certain fees, and complying with the requirements of the Companies (Consolidation) Act, 1908, as regards registration.

Q. What is the Memorandum of Association?

A. The Memorandum of Association is the deed of incorporation which defines and limits the powers of the company. In the case of a company limited by shares it must state—

1. The name of the company.
2. The situation of the registered office, *i.e.* whether in England, Scotland, or Ireland.
3. The objects of the company.
4. A declaration that the liability of members is limited.
5. The amount of share capital and how it is divided.

Q. What are the Articles of Association ?

A. The Articles of Association are regulations concerning the conduct of the affairs of the company, the rights of members, and the powers and duties of the directors or other officers.

Q. What is the meaning of the term " Limited Liability Company " ?

A. " Limited liability " means that the liability of each member for the debts and obligations of a company is limited to a definite sum.

Q. In what different ways may the liability of the members of a company be limited ?

A. The liability of members may be limited—

1. By guarantee.
2. By shares.

When the liability is limited by guarantee each member agrees to contribute a certain amount in the event of the company being wound up.

When the liability is limited by shares the members cannot be called upon to contribute more than the amount (if any) unpaid on their shares in the company.

Q. What is a Reserved Share Liability ?

A. A Reserved Share Liability is the proportion of liability on shares which, by the regulations of the company, cannot be called up except in the event of the winding-up of the company. Most of the joint stock banks have a reserved liability on the issued shares. The object is to add to the financial stability of the company by having large capital resources in reserve.

Q. How many kinds of limited companies are there ?

The Companies (Consolidation) Act, 1908, provides for two kinds of companies, viz.—

1. Private Companies.
2. Public Companies.

Q. What is a Private Company ?

A. A Private Company is one which by its Articles of Association—

- (a) Restricts the right to transfer its shares.
- (b) Limits the number of members (excluding employes) to fifty.

- (c) Prohibits any invitation to the public to subscribe for shares or debentures of the company.

Q. What is the minimum number of members required in the case of a Public and a Private Company respectively?

A. In the case of a Public company the minimum number of members is seven.

In the case of a Private company the minimum number is two.

Q. What special privileges are given to Private Companies?

A. Private companies are not required to file certain documents with the Registrar of Companies which are required of a public company, and other privileges are accorded to them, viz.—

1. They are not required to file a prospectus or a statement in lieu of a prospectus.
2. They are not required to include a statement of assets and liabilities with the annual return and summary of Capital.
3. They are not required to file or forward to the members of the company a Statutory Report.
4. Private companies are not bound to give to holders of preference shares and debentures the right to receive and inspect Balance-Sheets.
5. A private company can commence business as soon as it is incorporated, without waiting for the Registrar's certificate entitling it to commence business.
6. Certain restrictions as to the appointment of directors, and the allotment of shares applicable to a private company do not apply to a public company.

Q. What are the chief points of difference between a General Partnership and a Public Company limited by shares?

A. The chief points of difference are—

1. As to the number of members. A partnership must not consist of more than twenty members, except a banking partnership, which must not consist of more than ten members. The minimum number of members of a public company is seven, beyond which there is no restriction as to number.
2. As to liability of the members, which in the case of a general partnership is unlimited. The liability of

the members of a company is limited to the amount (if any) unpaid on their shares.

3. As to the management of the business. Every member of a general partnership has a right to take part in the management of the business, but the members of a company have no such right.
4. A general partner cannot retire from the firm without the consent of the other partners, but a member of a public company can retire without the consent of the other members by transferring his shares.
5. A new partner cannot join a firm without the consent of the other partners. A new member can join a public company by merely purchasing shares.
6. Every member of a general partnership is the agent of the firm and can bind the firm as such. Every member of a company is not the agent of the company, the business of the company being managed by duly appointed directors or other officers.
7. In England a firm is not legally recognized as a separate entity from the members composing it, and an action against a firm is an action against the individual members. A company is an entity entirely distinct from the members composing it.

Q. What is a Mortgage?

A. A Mortgage is a conditional conveyance of property to secure the repayment of a loan and interest. The person who executes the mortgage deed is called the mortgagor, and the person in whose favour it is executed is called the mortgagee.

Q. What is a Debenture?

A. A Debenture is an acknowledgment of indebtedness by a company under its seal and sets forth the conditions affecting the payment of interest and the repayment of principal.

Debentures may or may not give to the holders a charge or mortgage on property of the company. When no such charge or mortgage is given the debentures are called naked debentures and are in the nature of promissory notes.

Debentures frequently give to the holders a charge over all the property of the company, present and future, including unpaid and uncalled Capital. This is called a general or floating charge to distinguish it from a charge relating to specific assets.

Mortgage Debentures are those which are secured by a

specific mortgage of certain fixed assets of the company. In such cases, if there is a large number of debenture holders, the mortgage deed is executed by the company in favour of trustees, who act on behalf of all the debenture holders for the time being.

Sometimes the repayment of debentures is secured by a specific mortgage of fixed property and a floating charge on all the other assets of the company, present and future.

Define the following terms :—Nominal Capital, Issued Capital, Subscribed Capital, Called-up Capital, Paid-up Capital, Uncalled Capital, Unpaid Capital.

A. Nominal Capital is the total amount of Share Capital which a company is authorized to issue.

Issued Capital is the total amount of Share Capital issued by a company to its members.

Subscribed Capital is that portion of the Issued Capital of a company which consists of shares issued to persons who have agreed to pay or subscribe cash therefor.

Called-up Capital is the total amount which a company has called upon the subscribers to pay on the shares held by them.

Paid-up Capital is the amount actually received by the company in cash or kind in respect of its Issued Capital, and includes the amount paid on the Subscribed Capital and the total amount agreed to be considered as paid on shares issued to vendors, or others, as fully or partly paid up.

Uncalled Capital is that portion of the total amount of Issued Capital which has not been called up, that is, which the members have not been called upon to pay.

Unpaid Capital may be either uncalled, or called up but not paid. The latter is usually described as Unpaid Calls.

Define the following terms :—Ordinary Shares, Preference Shares, Cumulative Preference Shares, Deferred Shares, Founders' Shares.

A. Ordinary Shares are those which entitle the holders to the profits remaining after prior interests (if any) have been satisfied.

Preference Shares are those which give the holders the right to be paid, out of profits, a fixed dividend before a distribution of profits is made to other shareholders. Preference Shares may be preferential not only as to dividends, but also as to Capital, which means that, in the event of winding-up, the amount of Capital due to preference shareholders would be paid

in priority to the claims of the holders of other classes of shares.

Cumulative Preference Shares are those which confer upon the holders the right to be paid any arrears of dividends out of future profits, before a distribution of profits is made to other shareholders. All Preference Shares are deemed to be cumulative in the absence of express provisions to the contrary in the Memorandum or Articles of Association.

Deferred Shares and Founders' Shares are those which rank for dividend only after certain dividends have been paid to the holders of Preference and Ordinary Shares. The Deferred and Founders' Shares are generally few in number, and the holders are entitled to the whole, or a definite portion, of the profits remaining after preference and ordinary dividends have been paid.

Q. What are Share Warrants to Bearer?

A. Share Warrants to Bearer are documents of title to fully paid shares or stock. The ownership passes by delivery from hand to hand instead of by transfer. Share Warrants can only be issued in accordance with the provisions of the Articles of Association of a company, and must be impressed with a Revenue stamp equal to three times the stamp duty that would be payable on the nominal value of the shares if transferred by deed.

When Share Warrants are issued, an account recording the number and amount thereof should be opened in the Share Ledger.

Q. What are the points of difference between Stock and Shares?

A. The following are the differences between Stock and Shares:—

Stock is a consolidated amount of Capital which may be held and transferred in fractional sums; Shares are numerical units which cannot be divided into fractional parts.

Stock must be fully paid up; Shares may be only partly paid up.

CHAPTER XXVIII.

Joint Stock Companies—Books of account—Statistical books—The statutory books—Form of Application and Allotment Book—Its uses—Formalities prior to allotment—Allotment Letter—Entries in books of account recording allotment—Meaning of Application and Allotment Account—Capital Accounts of single traders, partnerships and Joint Stock Companies compared.

Q. What books are necessary to record the transactions of Joint Stock Companies ?

A. Two kinds of books are necessary, viz.—

1. Books of account, such as Journal, Day Books, Cash Book, Ledgers.
2. Statistical books, including the books which Limited Companies are required by Statute to keep.

Q. What are the Statutory books of a Limited Company ?

A. The following are the Statutory books :—

Minute Book, to record the proceedings at meetings of directors and shareholders.

Register of Members.

Register of Mortgages.

Register of Directors and Managers.

Annual List of Members and Summary Book.

Q. What information must be recorded in the Register of Members ?

A. The Register of Members must contain the names, addresses, and occupations of the members, the number of shares held by each member, the distinctive numbers of the shares, and the amount paid up thereon ; the date of commencing to be a member, and the date of ceasing to be a member.

This book must be open to the inspection of any member of the Company without charge, and to any other person on payment of a fee not exceeding one shilling.

Q. What information must be recorded in the Register of Mortgages?

A. The Register of Mortgages must contain a record of each mortgage or charge specifically affecting the property of the Company, viz.—

A short description of the property mortgaged or charged, the amount of the charge created, and the names of the mortgagees or persons entitled to such charge.

This book must be open to the inspection of any member or creditor of the Company without charge, and to any other person on payment of a fee not exceeding one shilling.

Q. What information must be recorded in the Register of Directors and Managers?

A. The Register of Directors and Managers must contain a list of the names and addresses of the directors and managers for the time being. A copy of such list must be filed with the Registrar of Companies, and all changes in the list must be notified to him.

Q. What is the Annual List of Members and Summary?

A. Sect. 26 of the Companies (Consolidation) Act, 1908, provides that every Company having a share capital shall, once at least in every year, make a list of all persons who, on the fourteenth day after the first or only ordinary general meeting in the year, are members of the Company, and of all persons who have ceased to be members since the date of the last return, or (in the case of the first return) of the incorporation of the Company. The list must be in the prescribed form, and must contain a summary of the capital issued by the Company. In the case of public Companies the summary must include a statement, made up to such date as may be specified in the statement, in the form of a balance-sheet, audited by the Company's auditors, and containing a summary of its share capital, its liabilities, and its assets, giving such particulars as will disclose the general nature of such liabilities and assets, and how the values of the fixed assets have been arrived at, but the balance-sheet need not include a statement of profit and loss.

The following is a specimen form of the statement referred to :—

Statement in the form of a Balance-Sheet made up to the day of _____, 19____, containing the particulars of the Capital, Liabilities, and Assets of the Company.

DR. BALANCE-SHEET of the Co., made up to 19____. CR.

FORM OF BALANCE-SHEET

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CAPITAL AND LIABILITIES.				PROPERTY AND ASSETS.			
I. CAPITAL.	Showing:	£	s.	d.	£	s.	d.
1 The number of Shares					7 Immovable Property distinguishing—		
2 The amount paid per Share					(a) Freehold Land		
3 If any arrears of Calls, the nature of the arrears, and the names of the defaulters					(b) " Buildings		
4 The particulars of any forfeited Shares					(c) " Leasehold		
5 Showing:					8 Movable Property, distinguishing—		
6 The amount of Loans on Mortgages or Debenture Bonds					(d) Stock-in-trade		
The amount of Debts owing by the Company, distinguishing—					(e) Plant		
(a) Debts for which acceptances have been given					(f) The cost to be stated with deductions for deterioration in value as charged to the Reserve Fund or Profit and Loss		
(b) Debts to Tradesmen for supplies of Stock-in-trade or other articles					9 Debts considered good, for which the Company holds bills or other securities		
(c) Debts for Law Expenses					10 Debts considered good, for which the Company holds no security		
(d) Debts for Interest on Debentures or other Loans					11 Debts considered doubtful and bad		
(e) Unclaimed Dividends					Any debt due from a director or other officer of the Company to be separately stated		
VI. RESERVE FUND.	Showing:				12 The nature of Investment and rate of Interest		
The amount set aside from Profits to meet contingencies					13 The amount of Cash, where lodged, and if bearing Interest		
VII. PROFIT AND LOSS.	Showing:						
The disposable Balance for payment of Dividend, etc.							
CONTINGENT LIABILITIES.	Claims against the Company not acknowledged as Debts. Money for which the Company is contingently liable						

FORM OF APPLICATION FOR SHARES 185

Explain the circumstances in which the Application and Allotment Book is used, and the sources from which the necessary information is obtained.

A. When the directors of a Company issue a prospectus inviting applications for shares, a form of application accompanies the prospectus. The following is a specimen form:—

This Form should be sent to the Company's Bankers together with a Cheque for the amount of the deposit of 2s. 6d. per Share on the Shares applied for.

THE FUEL COMPANY, LTD.

No..... (Incorporated under the Companies (Consolidation) Act, 1908.)

CAPITAL - - - - - £100,000.

Divided into 100,000 Shares of £1 each.

ISSUE OF 75,000 SHARES OF £1 EACH AT PAR.

FORM OF APPLICATION FOR SHARES.

To the Directors of THE FUEL COMPANY, LTD.

GENTLEMEN.—Having paid to the Bankers of the Company the sum of £ , being a deposit of 2s. 6d. per Share on application for Shares of £1 each in the above-named Company, I request you to allot me that number of Shares, and I hereby agree to accept the same or any less number that may be allotted to me upon the terms of the Company's Prospectus filed with the Registrar of Joint Stock Companies and subject to the Memorandum and Articles of Association of the Company, and I further agree to pay the balance when due, and authorize you to place my name upon the Register of Members in respect of the Shares which may be allotted to me.

Name (in full)
(Mr., Mrs., or Miss.)

Address

Description

Ordinary Signature

Date.....19 .

THE FUEL COMPANY, LTD.

Bankers' Receipt.

No.....

Received this day of , 19 , from , for the credit of The Fuel Company, Ltd., the sum of £ , being a Deposit of 2s. 6d. per Share on Shares of £1 each in the above-named Company.

£ :

Stamp.

Cashier.

This receipt, when returned from the Bankers, is to be preserved by the applicant for exchange in due course for Share Certificate.

As the applications are received by the Bankers they are numbered and sent in batches to the Secretary of the Company. Particulars of each application are then entered in the appropriate columns of the Application and Allotment Book, viz.—

No. of application.

Date of do.

Name, address, and description of applicant.

Number of shares applied for.

Amount of deposit.

When a large number of applications are expected, the Application and Allotment Book will, in the first instance, be in the form of loose sheets, which are distributed amongst a number of clerks in order that the entries may be made as quickly as possible. The sheets may afterwards be bound together in book form.

When the period during which applications may be sent has expired and the lists closed, the directors proceed to allotment, for which purpose a meeting is held. The allotments will be recorded in the Minute Book, and the Application and Allotment sheets should be initialled by the chairman of the meeting for purposes of identification.

After allotment, particulars relating thereto will be entered in the Application and Allotment Book in the appropriate columns, viz.—

Date of allotment.

Number of shares allotted.

Distinctive numbers of shares allotted.

Amount due on allotment.

At the same time, Letters of Allotment will be prepared and despatched to the allottees as soon as possible, as the contract between the applicant and the Company in regard to the shares is not complete until the Letters of Allotment have been posted. Up to that time it is open for any applicant to withdraw his application.

Q. What stamp duty is payable on Letters of Allotment?

A. Every Letter of Allotment must be stamped with a penny stamp if the amount to which the letter relates is under £5, otherwise the stamp duty is sixpence.

Q. Draft a specimen form of Allotment Letter.

A. The following is the usual form of Allotment Letter :—

LETTER OF ALLOTMENT

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This form to be sent entire to the Company's Bankers, with cheque for the amount due on Allotment.



THE FUEL COMPANY, LTD.
Letter of Allotment.

No.

London, E.C., , 19 .

SIR or MADAM,

I beg to inform you that, in accordance with your application, the Directors have allotted to you Shares in this Company.

The total amount payable on the above Shares upon Application and Allotment is	. . .	£
You have paid on Application	. . .	£
Leaving still to be paid by you	. . .	£

which sum I am to request you to pay to the Company's Bankers,
I am, Sir or Madam,
Your obedient servant,
Secretary.

[This portion should be retained by the Bankers.]

THE FUEL COMPANY, LTD.

Bankers' Receipt for Amount payable on Allotment.

No.

Received this day of , 19 , from
the sum of £ being per Share payable on Allotment of
Shares in the above-named Company.

£ : :



Stamp. Cashier.

As the allotment moneys are received, the Company will be advised by the Bankers, and the dates of payment will then be entered in the column provided for the purpose in the Application and Allotment Book.

If a shareholder receives no allotment, his application money is returned by the Company, with a letter of regret.

Q. How are the moneys received on account of the application and allotment of shares recorded in the Company's books of account?

A. It is usual for the Company's Bankers to open separate accounts for application and allotment moneys, and to enter the particulars of the amounts received in separate pass books. From these books the amounts received on application and allotment are entered in the details column of the Company's Cash Book, the daily totals being entered in the Bank column. These totals will be posted to an account in the General Ledger, called, Application and Allotment Account. Thus in the books of account the bank is debited and Application and Allotment Account is credited with moneys received on account of applications for and allotments of shares.

Q. What other entries are made in the books of account after the allotment of shares has taken place?

A. A Journal entry is made in the following form :—

Date.		Fol.	£	s.	d.	£	s.	d.
	Application and Allotment Account Dr.		1500	0	0	1500	0	0
	To Share Capital Account							
	For 2s. 6d. per Share payable on Appli-							
	cation							
	and 2s. 6d. per Share payable on Allot-							
	ment							
	Of 6000 Shares allotted at a Board							
	Meeting held on							

This entry is posted to the debit of Application and Allotment Account, and to the credit of Share Capital Account in the General Ledger, thus—

DR.			SHARE CAPITAL ACCOUNT.					CR.		
			£	s.	d.		Jnl	£	s.	d.
						By Application and Allotment Account		1500	0	0

APPLICATION AND ALLOTMENT ACCOUNT 189

Dr. APPLICATION AND ALLOTMENT ACCOUNT. Cr.

	Jnl.	£	s.	d.		C.B.	£	s.	d.
To Share Capital		1500	0	0		By Cash Application moneys	750	0	0
						By Cash Allotment moneys	750	0	0

Explain the real meaning of Application and Allotment Account.

A. Application and Allotment Account is in reality another name for Sundry Shareholders' Account, and records the amount due and received from *all* the shareholders of the Company in respect of their application for, and the allotment to them of, shares. The balance of the account represents the amount still due from shareholders in respect of allotment moneys.

Sometimes two accounts are kept—one for application moneys and one for allotment moneys, but one account is generally regarded as sufficient, having regard to the fact that the shareholders are not debtors to the Company, and that no effective debit entry against the shareholders can be made, until the shares applied for have been allotted and notice of allotment has been posted.

Compare the Capital Accounts of a Joint Stock Company with those of a single trader and a partnership.

A. In the case of a single trader, accounts for the assets representing the amount of capital are debited and Capital Account is credited. Thus, if A. B. commences business with a capital of £2000 in cash, the following Ledger entries would be made:—

Dr. A. B.'s CAPITAL ACCOUNT. Cr.

	£	s.	d.		£	s.	d.
				By Cash	2000	0	0

SHARE CAPITAL ACCOUNT

DR.		CASH ACCOUNT.						CR.	
		£	s.	d.				£	s. d.
	To A. B.'s Capital Account	2000	0	0					

In the case of a partnership, the character of the entries are the same, the only variations being that a separate Capital Account must be opened for each partner. Thus if X., Y., and Z. commence business with a capital of £5000 in cash, contributed as to £2500 by X., £1500 by Y., and £1000 by Z., the following Ledger entries would be made :—

DR.		X.'s CAPITAL ACCOUNT.						CR.	
		£	s.	d.				£	s. d.
					By Cash	.		2500	0 0

DR.		Y.'s CAPITAL ACCOUNT.						CR.	
		£	s.	d.				£	s. d.
					By Cash	.		1500	0 0

DR.		Z.'s CAPITAL ACCOUNT.						CR.	
		£	s.	d.				£	s. d.
					By Cash	.		1000	0 0

SHARE CAPITAL ACCOUNT

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Dr.		CASH ACCOUNT.				Cr.		
		£	s.	d.		£	s.	d.
To X. Capital								
Account		2500	0	0				
„ Y.'s ditto		1500	0	0				
„ Z.'s ditto		1000	0	0				

In the case of a Company the principle remains exactly the same, the only difference being in the method of obtaining the capital and the formalities connected therewith, which necessitate the opening of certain accounts of a temporary character. Suppose, for example, that a Company were formed by seven persons, each of whom contributed £1000 in cash for 1000 shares of £1 each, making the capital £7000. There could be no objection to opening an account in the General Ledger with each of the seven shareholders, and crediting each account with £1000, Cash Account being debited with the total sum of £7000. In practice, however, it is not usually convenient to open an account for each shareholder, and consequently, instead of crediting seven accounts with £1000 each, one account is credited with the total sum £7000. This account is called the Share Capital Account.

The Ledger entries would then be—

DR.		SHARE CAPITAL ACCOUNT.				CR.		
		£	s.	d.	By Cash	£	s.	d.
						7000	0	0

DR.		CASH ACCOUNT.				CR.			
		£	s.	d.			£	s.	d.
To Share Capital Account									
“	A. . . .	1000	0	0					
“	B. . . .	1000	0	0					
“	C. . . .	1000	0	0					
“	D. . . .	1000	0	0					
“	E. . . .	1000	0	0					
“	F. . . .	1000	0	0					
“	G. . . .	1000	0	0					

Shareholders, as a rule, do not, however, immediately contribute cash in this way. The shares are first applied for and then allotted, a certain proportion of the nominal amount of each share being paid on application, and a further proportion being payable on allotment. This circumstance necessitates the opening of accounts of a temporary character, such as Application and Allotment Account. Suppose, for example, that the seven shareholders already referred to each applied for 1000 shares, and paid 10s. per share on application, and 10s. per share on allotment, the entries in the General Ledger would then be—

Dr. SHARE CAPITAL ACCOUNT. Cr.

	£	s.	d.		£	s.	d.
				By Application and Allotment Acct.	7000	0	0

Dr. APPLICATION AND ALLOTMENT ACCOUNT. Cr.

	£	s.	d.		£	s.	d.
To Share Capital Account.	7000	0	0	By Cash—Application moneys .	3500	0	0
				By Cash—Allotment moneys .	3500	0	0
	7000	0	0		7000	0	0

Dr. CASH ACCOUNT. Cr.

	£	s.	d.		£	s.	d.
To Application and Allotment Acct.	3500	0	0				
„ ditto. „	3500	0	0				

It will thus be seen that the underlying principle upon

which entries affecting Capital Account are made is the same for a single trader, a partnership, or a Joint Stock Company.

It must, however, be noted that the capital of a Company is fixed and cannot be reduced or increased except in accordance with the provisions of the Companies Act. The net loss or profit of a Company cannot, therefore, be transferred to Capital Account, as in the cases of a single trader or a partnership, but must remain as a debit or a credit balance on Profit and Loss Account, until a distribution of profits amongst the shareholders takes place, when the latter account will be debited with the amount of such distribution.

Q. How can the nominal capital of a Limited Company be increased?

A. The nominal capital of a Limited Company can be increased by a Special Resolution passed by the members of the Company, and the payment of the prescribed stamp duties to the Registrar of Companies.

Q. What is a Special Resolution?

A. A Special Resolution is one passed by three-fourths of the members present and voting at an Extraordinary General Meeting, of which notice specifying the intention to propose such resolution has been duly given, and confirmed by a subsequent resolution passed by a majority of members at a subsequent General Meeting, of which notice has been duly given, held at an interval of not less than 14 days nor more than one month from the date of the first meeting. A fresh notice should be given for the second meeting.

A copy of every Special Resolution must be printed, published, and forwarded to the Registrar of Companies for registration, and a copy of every Special Resolution for the time being in force must be annexed to or embodied in every copy of the Company's Articles of Association issued after the passing of the Resolution.

The first of the two resolutions is called an Extraordinary Resolution; the second is an Ordinary Resolution.

CHAPTER XXIX.

Joint Stock Companies—The Register of Members and Share Ledger—Its form—Sources of entries therein—Register of Transfers—Call Book—Procedure in making a call—Form of Call Letter—Vendors' shares—Preference and Ordinary Share Capital Accounts—Premium on shares—Preliminary expenses—Discount on debentures—Debentures redeemable at a premium—Debentures issued at a premium.

Q. As it is not generally practicable to keep a personal account with each shareholder in the General Ledger, in which book are the shareholders accounts kept?

A. The shareholders' accounts are kept in a statistical book called the Share Ledger, which usually includes the information required by Statute to be kept in the Register of Members, and is therefore often called the Register of Members and Share Ledger.

Q. Why is it sometimes desirable to keep both a Register of Members and a Share Ledger?

A. When the right of inspection of the Register is likely to be exercised by certain members of the Company or the public for improper purposes, it is desirable to keep a Register of Members containing only such information as is required by statute.

Q. What entry is necessary in the Register of Members consequent upon the death of a member?

A. Upon the death of a member, probate of his will or letters of administration should be produced to the Company for registration, which will be effected by entering the names and addresses of the Executors or Administrators in the Register above the name of the deceased member. For such registration the Company usually charges a fee of 2s. 6d.

Draft a form of Register of Members and Share Ledger.

REGISTER OF MEMBERS AND SHARE LEDGER 195

4. —

REGISTER OF MEMBERS AND SHARE LEDGER.

[illegible]

Q. Do the Shareholders' Cash Accounts in the Share Ledger form part of the double-entry system?

A. No; the Dr. and Cr. entries in the Share Ledger are the details of items posted in total to the total shareholders' accounts in the General Ledger, viz. Application and Allotment Account, and the Calls Accounts (if any).

Q. What are the sources of the entries on the Dr. side of the Shareholders' Cash Accounts?

A. The entries on the Dr. side are entered from the Application and Allotment Book, First Call Book, and other similar

books. Therefore the total of the items debited to all the shareholders' accounts in respect of amounts due on application and allotment should agree with the total of the corresponding columns in the Application and Allotment Book, and also with the total amount debited to Application and Allotment Account in the General Ledger.

Q. From which book are the items on the Cr. side of the Shareholders' Cash Accounts posted?

A. The items on the Cr. side are posted from the Cash Book. The total of the items posted to the credit of *all* the shareholders' accounts in the Share Ledger in respect of application and allotment moneys and calls should agree with the total amounts posted to the credit of Application and Allotment Account, and the Calls Accounts in the General Ledger.

Q. What are the sources of the entries relating to "shares acquired" and "shares transferred"?

A. The particulars of shares acquired are entered from the Application and Allotment Book, if the shareholder is an allottee; or from the Register of Transfers, if the shareholder is a transferee. Particulars of shares transferred are entered from the Register of Transfers.

Q. When a transfer of shares is lodged with the Company, what are the duties of the Secretary in relation thereto?

A. The Secretary's duties are to see that the transfer is in the prescribed form and is properly stamped, that the names, addresses, and description of the transferor and transferee are properly entered on the document, and that any alteration is initialled by the parties. The transfer should be numbered and entered in the Register of Transfers. The transfer will afterwards be produced to the Board of Directors, and when passed by them the further columns in the Register of Transfers will be filled up, and a new certificate prepared in favour of the transferee.

Q. What is a Certified Transfer?

A. A certified transfer is one which contains a certificate signed by the Secretary of the Company to the effect that the certificate for the shares named in the transfer is lodged at the Company's office.

Draft a form of Register of Transfers.

A.—

REGISTER OF TRANSFERS.

From					To										
Number of Transfer.	Date lodged.	Transferor.			Share Ledger Folio.	Number of Shares.	Number of Certificate surrendered.	Amount paid up per Share.	Distinctive Numbers.	Transferee.	Share Ledger Folio.	Number of Shares.	Number of New Certificate.	Date Transfer passed.	By whom Transfer was left.
								£ s. d.	From To						

CALLS ON SHARES

Describe the process of making a call upon shareholders.

- A. The procedure in connection with a call is as follows :—
 1. The directors pass a formal resolution, making a call of a certain amount per share, unless the shares have been allotted on the terms of a prospectus which stated that the balance due on the shares would be payable on specific dates, in which case a formal resolution is not required.
 2. A list of shareholders who are liable in respect of the call is made in a Call Book, which may be ruled as under—

CALL BOOK.

	Number of Call Letter.	Shareholder's Name.	Address.	Share Ledger Folio.	Shares held.	Amount of Call at per Share.	Date of Payment.	Amount paid.	Amount outstanding on	Interest at % per ann.	Date paid.	Remarks.
						£ s. d.		£ s. d.	£ s. d.	£ s. d.		

3. The items in the sixth column are posted to the debit of the shareholders' accounts in the Share Ledger, the folios of which are inserted in the column provided for the purpose.
4. A Journal entry is made, debiting the Call Account and crediting Share Capital Account in the General Ledger with the total amount due in respect of the call. The following is the usual form of Journal entry :—

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[illegible]

The following is a form of Call Letter:—

(Making 10s. per Share called up.)

London, E.C.,
June 20, 1910.

I beg to give you notice that the First Call of 5s. per Share has this day been made by the Board in accordance with the terms of the Prospectus. On the Shares held by you, the Call amounts to . This amount should be remitted to the Company's Bankers on or before the 27th inst.

Your obedient servant,
Secretary.

To.....

*Banker's Receipt for First Call of 5s. per share, payable June 27, 1910.
(Making 10s. per share called up.)*

Received this day of , 1910, from the
sum of £ , being First Call of 5s. per share, due June 27, 1910,
on Shares

Cashier.

£.....

This portion, when receipted by the Bankers, must be preserved by the Shareholder, to be exchanged in due course for the Share Certificate.

6. The Bankers will open a separate account and prepare a separate pass book recording the amounts received on account of the call. When the pass

This form must be sent entire to the Company's Bankers.

book is received from the Bank, the items will be entered in the Company's Cash Book in the details column, each day's total being entered in the Bank column. The details will be posted to the credit of the shareholders' accounts in the Share Ledger, and the totals will be posted to the credit of the Call Account in the General Ledger. Particulars of the amounts paid will also be recorded in the Call Book.

The balance of the Call Account in the General Ledger will represent the total amount unpaid in respect of the call, and should agree with the total of the items outstanding on account of the call appearing in the shareholders' accounts in the Share Ledger and also in the Call Book.

It is the practice for Companies to take power in their Articles of Association to charge interest on over-due calls, and for that reason a column for interest is provided in the Call Book.

Q. How are the debit balances on Calls Accounts shown in the Balance-Sheet of a Company?

A. The debit balances on Calls Accounts are shown in the Balance-Sheet by deduction from the total credit balance on Share Capital Account, thus—

DR.				SHARE CAPITAL ACCOUNT.				CR.			
			£	s.	d.				£	s.	d.
						By Application and Allot- ment Acct. .	1500	0	0		
						" First Call Account .	1500	0	0		
						" Second ditto . .	1500	0	0		

DR.			APPLICATION AND ALLOTMENT ACCOUNT.			CR.			
			£	s.	d.		£	s.	d.
To	Share					By	Cash	.	
	Capital	.	1500	0	0		"	do.	.
			1500	0	0		1500	0	0
			<u>1500</u>	<u>0</u>	<u>0</u>		<u>1500</u>	<u>0</u>	<u>0</u>

VENDORS' SHARES

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Dr.

FIRST CALL ACCOUNT.

Cr.

	£	s.	d.		£	s.	d.
To Share Capital .	1500	0	0	By Cash .	1460	0	0
	1500	0	0	„ Balance.	40	0	0
	<u>1500</u>	<u>0</u>	<u>0</u>		<u>1500</u>	<u>0</u>	<u>0</u>
To Balance .	40	0	0				

Dr.

SECOND CALL ACCOUNT.

Cr.

	£	s.	d.		£	s.	d.
To Share Capital .	1500	0	0	By Cash .	1320	0	0
	1500	0	0	„ Balance.	180	0	0
	<u>1500</u>	<u>0</u>	<u>0</u>		<u>1500</u>	<u>0</u>	<u>0</u>
To Balance .	180	0	0				

Dr.

BALANCE-SHEET.

Cr.

	£	s.	d.		£	s.	d.
To Share Capital .				By Cash	4280	0	0
Nominal—							
10,000 Shares							
£1 each . £10,000							
Issued and called up—							
6000 Shares,							
15s. per share							
called up . £4500							
Less Calls in							
Arrear. . 220							
	4280	0	0				
	<u>4280</u>	<u>0</u>	<u>0</u>		<u>4280</u>	<u>0</u>	<u>0</u>

Q. What are Vendors' Shares?

A. When a business is acquired by a Company, a portion of the purchase price is frequently satisfied by the issue to the vendors of shares which are either partly or fully paid up. These are called Vendors' Shares.

Q. When vendors' shares are issued, what entries are made in the books of account?

A. By means of a Journal entry the Vendors' Account in the General Ledger is debited and Share Capital Account is credited with the total amount agreed to be considered as paid on the shares issued.

Q. When the capital of a Company consists of preference and ordinary shares, what records are kept of the two classes of shares?

A. When there are different classes of shares, it is usual to keep separate statistical books for each class, and to keep separate Share Capital accounts relating to each class in the General Ledger.

Q. Can a Company issue its shares at a discount or at a premium?

A. It is illegal for a Company to issue its shares at a discount, but shares may be issued at a premium.

In such a case the premium is included in the amount payable on application and allotment, and is debited to Application and Allotment Account and credited to Premium on Shares Account in the General Ledger.

A Company issues 5000 shares of £1 each at a premium of 2s. 6d. per share, payable 5s. per share on application, and 2s. 6d. per share on allotment. Give the Journal entry recording the allotment.

A.—

JOURNAL.

	£	s.	d.	£	s.	d.
Application and Allotment Acct. Dr.	1875	0	0			
To Premium on Shares Account . .				625	0	0
" Share Capital Account				1250	0	0
Being 5s. per share on application and 2s. 6d. per share on allot- ment of 5000 shares issued at a premium of 2s. 6d. per share.						

Q. May the amount of premium on shares be distributed as dividends?

A. No; the premium on shares is part of the capital of a Company, and cannot be distributed as profits. The amount can, however, be used to make good any loss of capital that may be incurred, or to defray a capital expense such as preliminary expenses.

Q. What are Preliminary Expenses ?

A. Preliminary Expenses are those expenses which are incurred in forming a Company and bringing it into existence. They include items such as stamp duties, legal expenses, printing and advertising prospectuses, commissions to underwriters and others for agreeing to subscribe or obtain subscribers for shares in the Company.

Q. How should Preliminary Expenses be dealt with in the books ?

A. A Preliminary Expenses Account should be opened in the General Ledger and debited with the total amount thereof. As the preliminary expenses are in the nature of capital expenditure, a Company is not bound to charge any part thereof to revenue, but may include the amount in the Balance-Sheet on the credit side. It is, however, advisable to write the whole amount off to revenue during the first two or three years of a Company's existence.

Q. Is a Company allowed to issue debentures at a discount ?

A. Yes ; debentures may be issued at a discount.

Q. How is the amount of the discount on debentures dealt with in the books of account ?

A. The total discount is debited to an account called Cost of Issue of Debentures, which is also debited with any other expenses incurred in connection with the debenture issue. If the amount of the debentures is repayable at the end of a certain period, the cost of issue should be charged against revenue during such period. If, however, the debentures are intended as a permanent loan, and are irredeemable, the cost of issue should be dealt with in the same manner as preliminary expenses.

Q. When debentures are issued at par, but are repayable at a premium, what provision should be made for the payment of the premium ?

A. The premium payable on the redemption of debentures should be provided for out of revenue during the period in which the debentures are outstanding.

Q. If debentures are issued at a premium, how should the premium be dealt with ?

A. The amount of premium received on debentures should be credited to a special account which may be debited with the expenses of issuing the debentures, or any other expenditure or loss in the nature of capital.

CHAPTER XXX.

Acquisition of a business by a Company—Price of goodwill—How ascertained—Specimen Journal, Cash Book and Ledger entries—Order of stating liabilities and assets in Company's Balance-Sheet—Appropriation Accounts—Forfeited shares—How recorded in books—How shown in Balance-Sheet—Reissue of forfeited shares at a discount.

Q. When a Company acquires a business as a going concern, what entries in the Company's books are necessary to record the purchase?

A. An entry is made in the Journal debiting accounts for the various assets acquired, including goodwill, crediting accounts for the liabilities taken over and crediting the vendors' account for the agreed purchase price.

Q. How is the price paid by a Company for the goodwill of a business ascertainable?

A. The price of the goodwill is the difference between the total purchase price and the net amount of the assets acquired—that is, the amount by which the assets exceed the liabilities.

The Excelsior Company, Ltd., was formed to acquire the business of Barker & Co., whose financial position at the date of purchase is agreed as follows:—

BARKER & CO.'S BALANCE-SHEET, July 1, 1910.

Liabilities.	£	s.	d.	Assets.	£	s.	d.
To Sundry Creditors	1500	0	0	Cash at Bank	250	0	0
„ Capital	14,000	0	0	Debtors	1750	0	0
				Stock	6500	0	0
				Plant and Machinery	3400	0	0
				Freehold Premises	3600	0	0
	15,500	0	0		15,500	0	0

OPENING THE BOOKS OF A COMPANY 205

An agreement was entered into between the vendors and the Company, by which the purchase price was fixed at £20,000, payable as to £14,000 in cash and £6000 in fully paid-up shares of the Company. The nominal capital of the Company was £35,000, in shares of £1 each, of which 25,000 were issued to the public and allotted on July 5, 1910, and were payable, 5s. on application and 5s. on allotment. The whole of the cash due on application and allotment was received, and on July 12 the vendors' shares were allotted, and £10,000 paid to them on account of the purchase. Prepare Journal, Cash Book, and Ledger entries recording the above facts, and prepare the Company's Balance-Sheet showing its position on July 13, 1910.

A.—

JOURNAL.

Folio 1.

1910.			£	s.	d.	£	s.	d.
July 1	Sundries.	Dr.						
	To Sundries.	C.B.						
	Bank	1	250	0	0			
		Led.						
	Sundry Debtors	5	1750	0	0			
	Stock	6	6500	0	0			
	Plant and Machinery	7	3400	0	0			
	Freehold Premises	8	3600	0	0			
	Goodwill	4	6000	0	0			
	Sundry Creditors	9				1500	0	0
	Vendors	3				20,000	0	0
	For assets and liabilities purchased from Barker & Co., as per agreement.							
July 5	Application and Allotment Account	Dr.	2	12,500	0	0		
	To Share Capital Account	1				12,500	0	0
	Being 5s. per share payable on application, and 5s. per share on allotment of 25,000 shares of £1 each.							
July 12	Vendors	Dr.	3	6000	0	0		
	To Share Capital Account	1				6000	0	0
	Being 6000 shares of £1 each allotted to the vendors as fully paid up, in accordance with the terms of the purchase agreement							

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Dr.

CASH BOOK.

Folio 1.
Cr.

			Details.		Bank.					Details.		Bank.	
			£	s. d.	£	s. d.				£	s. d.	£	s. d.
1910.							1910.						
July 1	To Sundries	Jnl. 1			250	0 0	July 12	By Vendors	4			10,000	0 0
"	" Application and Allotment Account	Led. 2			6250	0 0	"	" Balance	c/d			2750	0 0
" 12	"	"			6250	0 0							
					12,750	0 0						12,750	0 0
July 12	" Balance	b/d			2750	0 0							

LEDGER.

Folio 1.
Cr.

Dr.

SHARE CAPITAL ACCOUNT.

			£	s. d.	1910.		Jnl.	£	s. d.
					July 5	By Application and Allotment Account	1	12,500	0 0
					" 12	" Vendors	1	6000	0 0

Folio 2.
Cr.

Dr.

APPLICATION AND ALLOTMENT ACCOUNT.

			£	s. d.	1910.		C.B.	£	s. d.
1910.					July 1	By Cash	1	6250	0 0
July 5	To Share Capital	Jnl. 1	12,500	0 0	" 12	"	1	6250	0 0
			12,500	0 0				12,500	0 0

Folio 3.
Cr.

Dr.

VENDOR'S ACCOUNT.

			£	s. d.	1910.		Jnl.	£	s. d.
1910.					July 1	By Sundries	1	20,000	0 0
July 12	To Share Capital	Jnl. 1	6000	0 0					
"	" Cash	1	10,000	0 0					
"	" Balance	c/d	4000	0 0					
			20,000	0 0				20,000	0 0
					" 12	" Balance	b/d	4000	0 0

OPENING THE BOOKS OF A COMPANY 207

Folio 4.

Dr.

GOODWILL ACCOUNT.

Cr.

		Jnl.	£	s.	d.			£	s.	d.
1910.										
July 1	To Sundries	1	6000	0	0					

Folio 5.

Dr.

SUNDRY DEBTORS' ACCOUNT.

Cr.

		Jnl.	£	s.	d.			£	s.	d.
1910.										
July 1	To Sundries	1	1750	0	0					

Folio 6.

Dr.

STOCK ACCOUNT.

Cr.

		Jnl.	£	s.	d.			£	s.	d.
1910.										
July 1	To Sundries	1	6500	0	0					

Folio 7.

Dr.

PLANT AND MACHINERY.

Cr.

		Jnl.	£	s.	d.			£	s.	d.
1910.										
July 1	To Sundries	1	3400	0	0					

208 OPENING THE BOOKS OF A COMPANY

Folio 8.

DR.		FREEHOLD PREMISES.						CR.	
1910.		Jnl.	£	s.	d.			£	s. d.
July 1	To Sundries	1	3600	0	0				

Folio 9.

DR.		SUNDRY CREDITORS' ACCOUNT.										CR.			
						£	s.	d.	1910.		Jnl.		£	s.	d.
									July 1	By Sundries	.	1	1500	0	0

THE EXCELSIOR COMPANY, LTD.

DR. BALANCE-SHEET, July 13, 1910. CR.

	£	£	s.	d.		£	s.	d.
To Share Capital					By Goodwill	6000	0	0
Nominal—					„ Freehold Premises.	3600	0	0
35,000 Shares of					„ Plant Machinery	3400	0	0
£1 each . . .	35,000				„ Stock	6500	0	0
Issued and Paid					„ Debtors	1750	0	0
up—					„ Cash at Bank.	2750	0	0
6000 Shares of £1								
each issued to								
Vendors as fully								
paid up . . .	6000							
25,000 Shares £1								
each: 10s. per								
Share called up	12,500							
		18,500	0	0				
Sundry Creditors		1500	0	0				
Vendors:								
Balance of Purchase								
Account . . .		4000	0	0				
		24,000	0	0				
						24,000	0	0

ORDER OF SHOWING ITEMS IN BALANCE-SHEET 209

A Company was formed to acquire the following assets :—

	£	s.	d.	£	s.	d.
Stock	2000	0	0			
Book Debts	1200					
Less Reserve for Bad Debts	120					
	1080	0	0			
Premises	500	0	0			
Goodwill	250	0	0			
				3830	0	0

The price was fixed at £3830. Draft the opening Journal entry.

JOURNAL.

	£	s.	d.	£	s.	d.
Sundries. Dr.						
To Sundries.						
Stock	2000	0	0			
Sundry Debtors	1200	0	0			
Premises	500	0	0			
Goodwill	250	0	0			
Reserve for Bad Debts				120	0	0
Vendors				3830	0	0
For assets acquired as per agreement.						

Q. In what order are the liabilities and assets usually stated in the Balance-Sheet of a Company ?

A. The order usually adopted is as follows :—

Dr. side—

1. Nominal capital stated by way of information, not as an item in the Balance-Sheet.
2. Share capital issued and paid up.
3. Loans on debentures and other loans.
4. Sundry creditors.
5. General Reserve Account.
6. Profit and Loss Account.

Cr. side—

1. Goodwill.
2. Land and buildings.
3. Plant and machinery.
4. Fixtures and fittings.
5. Stock.
6. Debtors.
7. Investments.
8. Cash.

Q. What is an Appropriation Account ?

A. An Appropriation Account is a division of the Profit and Loss Account of a Company. It shows on the

Credit side—

- (a) The balance of net profits brought forward from a previous period.
- (b) The net profit for the period covered by the Profit and Loss Account.

Debit side—

- (a) The amount of profits which have been actually appropriated, *e.g.* in interim dividends paid; transfers to Reserve Account.
- (b) The balance of profits available for dividends or other purposes, and which appears as an item on the Dr. side of the Balance-Sheet.

Q. What is a proposed Appropriation Account ?

A. A proposed Appropriation Account is an account which shows the manner in which the directors, subject to confirmation by the shareholders, propose to apply the available profits of a Company. In preparing the Balance-Sheet no effect is given to any proposals—only actual payments or transfers of profits are dealt with.

The net profit of a Company for the year ended June 30, 1910, was £15,520, and a balance of £4200 was brought forward from the previous account. During the year an interim dividend amounting to £5000 had been paid. Prepare Appropriation Account.

A.—

DR.		APPROPRIATION ACCOUNT.						CR.	
		£	s.	d.			£	s.	d.
1908. Dec. 31	To Interim Dividend	5000	0	0	1910. June 30	By Balance brought forward from last account .	4200	0	0
	„ Balance carried to Balance-Sheet .	14,720	0	0		„ net Profit as per Account .	15,520	0	0
		<u>19,720</u>	<u>0</u>	<u>0</u>			<u>19,720</u>	<u>0</u>	<u>0</u>

PROPOSED APPROPRIATION ACCOUNT 211

The net profit of a Company is £7500, of which £2000 has already been applied to the payment of an interim dividend, and it is proposed to pay a further dividend amounting to £4000, place £500 to a Reserve Account, and carry forward £1000. Prepare proposed Appropriation Account, and show how the balance of profit will appear in the Company's Balance-Sheet.

A.—

DR.		PROPOSED APPROPRIATION ACCOUNT.				CR.		
		£	s.	d.		£	s.	d.
To Interim Dividend paid		2000	0	0		By Net Profit		
„ Further Dividends proposed		4000	0	0		brought forward		
„ Reserve Fund		500	0	0		7500	0	0
„ Balance		1000	0	0				
		7500	0	0		7500	0	0

DR.	BALANCE-SHEET.						CR.		
To Profit and Loss Account .	£	£	s.	d.			£	s.	d.
„ Net Profit for the Year .	7500								
Less Interim Dividend paid .	2000								
	—	5500	0	0					

Q. What are forfeited shares ?

A. Forfeited shares are shares which have been held by a shareholder whose interest therein has been forfeited by non-payment of calls due. The powers of the directors relating to forfeiture of shares, and the consequences thereof depend entirely upon the provisions of the Company's Articles of Association.

Q. When a forfeiture of shares takes place, what entries in the Company's books are necessary to record the fact ?

A. The following entries are necessary :—

1. Debit Share Capital Account and credit a Forfeited Shares Account with the nominal value of the shares, i.e. the total amount called up on the shares.
2. Debit Forfeited Shares Account and credit Application and Allotment Account and Calls Accounts,

with the amounts owing on the shares and standing as debit balances on those accounts.

3. The balance of Forfeited Shares Account will represent the amount received by the Company in respect of the forfeited shares.

Q. How should forfeited shares be shown in the Balance-Sheet of a Company?

A. The nominal amount of the forfeited shares should be deducted from the total issued capital, and the balance of Forfeited Shares Account shown as a separate item on the Dr. side of the Balance-Sheet.

A Company has issued 10,000 shares of £1 each, the whole of which has been called and paid up, with the exception of the last two calls of 5s. each on 500 shares, which are forfeited. Draft Journal and Ledger entries recording the forfeiture, and show how the Share Capital will afterwards appear in the Company's Balance-Sheet.

A.—

JOURNAL.

	£	s.	d.	£	s.	d.
Share Capital Dr.	500	0	0			
To Forfeited Shares Account .				500	0	0
Being 500 shares of £1 each forfeited by the directors pursuant to the terms of the Articles of Association.						
Forfeited Shares Account . Dr.	250	0	0			
To Sundries—						
First Call Account . . .				125	0	0
Second ditto				125	0	0
For balances due on forfeited Shares transferred.						

LEDGER.

Dr.

SHARE CAPITAL ACCOUNT.

Cr.

	£	s.	d.		£	s.	d.
To Forfeited Shares Account .	500	0	0	By Sundries	10,000	0	0
„ Balance . c/d	9,500	0	0				
	10,000	0	0		10,000	0	0
				By Balance b/d	9,500	0	0

REISSUE OF FORFEITED SHARES

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Dr.		FORFEITED SHARES ACCOUNT.				Cr.			
		£	s.	d.		£	s.	d.	
To Sundries		250	0	0	By Share				
„ Balance	c/d	250	0	0	Capital	500	0	0	
		500	0	0		500	0	0	
					By Balance	b/d	250	0	0

DR.		FIRST CALL ACCOUNT.				CR.		
		£	s.	d.		£	s.	d.
To Share					By Cash . .	2375	0	0
Capital .		2500	0	0	„ Forfeited			
					Shares	125	0	0
					Account			
						2500	0	0
		2500	0	0				
		<u>2500</u>	<u>0</u>	<u>0</u>		<u>2500</u>	<u>0</u>	<u>0</u>

Dr.		SECOND CALL ACCOUNT.				Cr.		
		£	s.	d.		£	s.	d.
To Share					By Cash . .	2375	0	0
Capital .		2500	0	0	„ Forfeited			
					Shares	125	0	0
					Account			
						2500	0	0
		2500	0	0				
		<u>2500</u>	<u>0</u>	<u>0</u>		<u>2500</u>	<u>0</u>	<u>0</u>

DR.		BALANCE-SHEET.					
		£	s.	d.	£	s.	d.
To Share Capital.							
<i>Nominal—</i>							
10,000 Shares of £1 each . .		10,000	0	0			
<i>Issued and paid up—</i>							
10,000 Shares, £1 per Share called up		10,000	0	0			
Less 500 Shares, £1 per Share forfeited		500	0	0			
<u>9500</u>					9500	0	0
To Forfeited Shares Account . .					250	0	0

In the Share Ledger a note recording the forfeiture would be made in the Shareholders' Account.

Q. May the directors reissue forfeited shares at a discount?

A. The directors may reissue forfeited shares at a discount not exceeding the amount already paid on the shares. That is

214 ENTRIES RECORDING REISSUED SHARES

to say, 500 shares of £1 each upon which £250 has been paid prior to forfeiture may be reissued at a discount not exceeding £250.

Q. What entries are necessary to record the reissue of forfeited shares?

A. The following entries may be made:—

1. Debit Forfeited Shares Account and credit Share Capital Account with the total nominal value of the shares reissued.
2. Debit Cash and credit Forfeited Shares Account with the amount received on reissue of the shares.
3. Transfer to Reserve Account any credit balance left on Forfeited Shares Account.

500 shares of £1 each, upon which £250 was paid prior to forfeiture, are reissued as fully paid, in consideration of £400 in cash, i.e. at a discount of £100. Assuming the total issued capital to have been £10,000, show the Share Capital and Forfeited Shares Accounts as they would appear after the reissue.

A.—

DR. SHARE CAPITAL ACCOUNT.				CR.			
	£	s.	d.		£	s.	d.
To Forfeited Share Account . . .	500	0	0	By Sundries . . .	10,000	0	0
Balance . . .	9500	0	0				
	10,000	0	0		10,000	0	0
				By Balance . . .	9500	0	0
				„ Forfeited Shares Account .	500	0	0

DR. FORFEITED SHARES ACCOUNT.				CR.			
	£	s.	d.		£	s.	d.
To Sundries . . .	250	0	0	By Share Capital Account . . .	500	0	0
„ Balance carried forward . . .	250	0	0				
	500	0	0		500	0	0
„ Share Capital Account . . .	500	0	0	„ Balance brought forward . . .	250	0	0
„ Reserve Account, transfer . . .	150	0	0	„ Cash . . .	400	0	0
	650	0	0		650	0	0

CHAPTER XXXI.

Reconstructions—Reduction of capital—Sale of undertaking of one Company to another—Entries in books of vendor and purchasing Companies—Application of profits belonging to a Company, but earned prior to its incorporation—Contingent liabilities—Arrears of dividends on cumulative preference shares—Capitalization of part of reserve by issue of bonus shares—Bonus shares issued at a premium—Valuation of shares in subsidiary Companies held by a parent Company—Payment of dividends—Forms of dividend list and dividend warrant.

Q. What is meant by the reconstruction of a Company?

A. The reconstruction of a Company means the rearrangement of its financial position. It usually involves the elimination from the Balance Sheet of fictitious assets or a debit balance on Profit and Loss Account by charges against Capital Account, thereby reducing the Capital of the Company.

Q. How can the capital of a Company be reduced?

A. The capital of a Company can only be reduced with the consent of the shareholders confirmed by an order of Court, which usually directs that the words: "and Reduced" shall be added to the name of the Company and be retained as a part thereof for a certain period.

Q. What entries in the books are necessary to record the reduction of capital?

A. The following entries are necessary:—

1. Debit Share Capital Account and credit a Reduction of Capital Account with the sum by which the capital is reduced.
2. Credit Profit and Loss and other accounts to be written off and debit Reduction of Capital Account, which will thus be closed.

The X. Y. 'Z. Company's Balance-Sheet shows the following position:—

Dr.

BALANCE-SHEET OF X. Y. Z. CO., LTD.

Cr.

Liabilities.	£	s.	d.	Assets.	£	s.	d.
To Share Capital				Goodwill	10,000	0	0
Nominal—				Land and Buildings	20,000	0	0
100,000 Shares				Plant and Machinery	7,000	0	0
£1 each . £100,000				Stock-in-trade	28,000	0	0
Issued and paid up—				Debtors	12,000	0	0
80,000 shares £1				Profit and Loss	18,000	0	0
each fully paid	80,000	0	0				
Sundry Creditors	15,000	0	0				
	95,000	0	0		95,000	0	0

A Shareholders' Committee, having had the assets revalued, recommended that the capital be reduced to £50,000 in shares of 10s. each, and that each shareholder should receive one fully paid share of 10s. in exchange for each £1 share held. They further recommended that Goodwill and Profit and Loss Account should be written off, that £5000 should be written off Land and Buildings, £4000 off Plant and Machinery, and £3000 off Stock-in-trade.

The recommendations were duly approved and confirmed by the Court. Draft Journal entries giving effect to the reconstruction, and prepare a Balance-Sheet of the Company, showing its altered position.

A.—

JOURNAL.

	£	s.	d.	£	s.	d.
Share Capital Account . . . Dr.	40,000	0	0			
To Reduction of Capital Account .				40,000	0	0
Being the amount of Capital written off by order of Court, dated—						
Reduction of Capital Account Dr.	40,000	0	0			
To Sundries—						
Goodwill				10,000	0	0
Profit and Loss				18,000	0	0
Land and Buildings				5000	0	0
Plant and Machinery				4000	0	0
Stock-in-trade				3000	0	0
Depreciation and Losses written off as per order of Court.						

SALE OF UNDERTAKING TO NEW COMPANY 217

BALANCE-SHEET OF X. Y. Z. CO., LTD., AND REDUCED.

Dr.

Cr.

	£	s.	d.		£	s.	d.
To Share Capital .				Land and Buildings .	15,000	0	0
Nominal—				Plant and Machinery .	3000	0	0
100,000 Shares				Stock-in-trade .	25,000	0	0
10s. each . £50,000				Debtors . . .	12,000	0	0
<u>Issued and paid-up—</u>							
80,000 Shares 10s.							
each fully paid .	40,000	0	0				
Sundry Creditors .	15,000	0	0				
	55,000	0	0		55,000	0	0

Q. If the directors of a Company decide to sell the whole of its assets and undertaking to a new Company, what steps will be necessary to give effect to the decision?

A. It will be necessary for the directors to call a meeting of Shareholders to pass resolutions for the winding-up of the Company, and for the appointment of a liquidator with authority to enter into an agreement for the sale of the assets and undertaking of the Company to a new Company. If necessary, the liquidator will be authorized to consent to the registration of a new Company bearing the same name as the old Company. His duties will be to comply with the requirements of the Companies (Consolidation) Act, 1908, and, on receipt of the purchase consideration, to pay the creditors of the old Company and distribute the surplus assets amongst the shareholders.

Q. To obviate delay and legal expenses, a Company, instead of reducing its capital, may decide to dispose of its assets and undertaking to a new Company. Assuming that the X. Y. Z. Co., Ltd., resolved to dispose of its business to a new Company, in consideration of £40,000 in fully paid shares, what entries would be necessary in the books of each Company to record the sale and purchase?

A. The following Journal and Ledger entries would be necessary in the books of the X. Y. Z. Co., Ltd.:—

JOURNAL OF X. Y. Z. CO., LTD.

	£	s.	d.	£	s.	d.
Realization Account . . . Dr.	77,000	0	0			
To Sundries—						
Goodwill				10,000	0	0
Land and Buildings				20,000	0	0
Plant and Machinery				7,000	0	0
Stock-in-trade				28,000	0	0
Debtors				12,000	0	0
For assets to be included in sale to the new Company.						
Sundry Creditors Dr.	15,000	0	0			
To Realization Account				15,000	0	0
For Liabilities to be taken over by the Purchasing Company.						
Purchasing Company Dr.	40,000	0	0			
To Realization Account				40,000	0	0
Purchase price agreed to be paid by the new Company.						
Profit and Loss	22,000	0	0			
To Realization Account . . . Dr.				22,000	0	0
Being loss on sale of Business to new Company.						
Shares in new Company Dr.	40,000	0	0			
To Purchasing Company				40,000	0	0
Being 80,000 Shares of 10s. each fully paid, received in payment of agreed purchase price.						
Share Capital Account Dr.	80,000	0	0			
To Shareholders' Account				80,000	0	0
Being amount of Capital issued and paid up transferred.						
Shareholders' Account Dr.	40,000	0	0			
To Profit and Loss				40,000	0	0
Total debit Balance on Profit and Loss Account transferred.						
Shareholders' Account Dr.	40,000	0	0			
To Shares in new Company				40,000	0	0
Being 80,000 Shares in the new Company received in payment of the purchase price now dis- tributed amongst the Share- holders.						

REALIZATION ACCOUNTS

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LEDGER OF X. Y. Z. Co., LTD.

Dr.

REALIZATION ACCOUNT.

Cr.

	£	s.	d.		£	s.	d.
To Sundry Assets .	77,000	0	0	By Sundry Creditors	15,000	0	0
				„ Purchasing Co.	40,000	0	0
				„ Profit and Loss Account	22,000	0	0
	77,000	0	0		77,000	0	0

Dr.

PROFIT AND LOSS ACCOUNT.

Cr.

	£	s.	d.		£	s.	d.
To Balance	18,000	0	0	By Sundry Shareholders' Account	40,000	0	0
„ Realization Account .	22,000	0	0		40,000	0	0
	40,000	0	0				

Dr.

SUNDRY SHAREHOLDERS' ACCOUNT.

Cr.

	£	s.	d.		£	s.	d.
To Profit and Loss	40,000	0	0	By Share Capital .	80,000	0	0
„ Shares in Purchasing Co.	40,000	0	0				
	80,000	0	0		80,000	0	0

PURCHASING COMPANY'S JOURNAL.

	£	s.	d.	£	s.	d.
Sundries Dr.						
To Sundries—						
Land and Buildings	15,000	0	0			
Plant and Machinery	8000	0	0			
Stock-in-Trade	25,000	0	0			
Sundry Debtors	12,000	0	0			
Sundry Creditors				15,000	0	0
Vendor Company				40,000	0	0
For assets and liabilities taken over at the agreed price of £40,000.						
Vendor Company Dr.	40,000	0	0			
To Share Capital				40,000	0	0
For 80,000 Shares of 10s. each fully paid allotted to Vendor Company in payment of pur- chase price as per agreement.						

Q. A Company is formed on March 31, 1910, to take over as from January 1, 1910, the business of X. & Co. The Company's Balance-Sheet is made up to December 31, 1910. What proportion of the profits for the year will be available for dividends?

A. Since a Company cannot earn profits before it is formed, the profits earned from January 1 to March 31 are not profits of the Company, but are profits of the vendors, which they have sold to the Company, and which, no doubt, were taken into account when agreeing the purchase price to be paid by the Company. The profits for the period in question are, therefore, part of the capital assets of the Company, and are not available for dividends, but may be used to write down the Goodwill Account, or any other capital asset account.

Q. What are contingent liabilities, and how should they be stated in a Balance-Sheet?

A. Contingent liabilities are liabilities which have not arisen, but may arise out of the transactions pending, e.g. the drawer and endorsers of a bill of exchange are contingently liable thereon until the bill has been honoured by the acceptor.

The amount of contingent liabilities should be stated in a note appended to the Balance-Sheet.

Q. A Company having issued 50,000 cumulative preference shares and 50,000 ordinary shares of £1 each, all of which are

fully paid up, has not paid a dividend on the preference shares for three years. What entries (if any) should be made in the Company's books relating to the arrears of dividend, and how should such arrears be shown in the Balance-Sheet?

A. As dividends can only be legally paid out of profits, no entries in the books are necessary to record the arrears, nor should any liability therefor be shown in the Balance-Sheet. A note, however, might properly be appended to the Balance-Sheet, calling attention to the fact that the dividends on the preference shares are in arrear.

Q. A Company with an issued Capital of £40,000 having accumulated out of profits a reserve of £50,000, decides to capitalize £40,000 thereof by the issue to the shareholders of £40,000 bonus shares of £1 each fully paid up, being one bonus share for every share held in the Company. What entries are required to record this arrangement?

A. The entries will be as follows:—

	£	s.	d.	£	s.	d.
Reserve Account Dr.	40,000	0	0			
To Shareholders' Bonus Account				40,000	0	0
Being bonus of £1 per Share,						
payable to Shareholders out						
of the Reserve.						
Shareholders' Bonus Account Dr.	40,000	0	0			
To Share Capital Account .				40,000	0	0
For 40,000 Shares of £1 each						
issued in satisfaction of the						
bonus duly sanctioned by reso-						
lution of the Shareholders.						

Q. When the shares of a Company are quoted at a premium, and it is desired to apply part of a reserve by issuing bonus shares, what course should be adopted?

A.—In such circumstances it is usual to issue the bonus shares at a premium approximately that at which the shares are quoted on the market.

Q. A Company with an issued capital of £40,000, having accumulated out of profits a reserve of £50,000 and whose £1 shares are quoted at £2 each, decided to apply £40,000 thereof by issuing to the shareholders a bonus of 20,000 shares at a premium of £1 per share. What entries will be required to record the arrangement?

222 SHARES OF SUBSIDIARY COMPANIES

A. The following entries will be necessary :—

	£	s.	d.	£	s.	d.
Reserve Account Dr.	40,000	0	0			
To Shareholders' Bonus Account				40,000	0	0
Being the amount of Reserve						
to be distributed amongst the						
Shareholders as bonus.						
Shareholders' Bonus Account .	40,000	0	0			
To Sundries—						
Share Capital Account				20,000	0	0
Premium on Shares Account .				20,000	0	0
Being 20,000 Shares of £1 each,						
issued at a premium of £1						
per Share, in satisfaction of						
the bonus duly sanctioned						
by resolution of the share-						
holders.						

Q. A parent Company owns three properties, which appear in the Company's books at the cost values, viz.—

Property No. 1	£5000
" No. 2	£4000
" No. 3	£7000

The directors form three subsidiary Companies to acquire the properties, the purchase prices of which were payable in fully paid £1 shares of the new Companies, as under—

No. 1	£10,000
No. 2	£7,500
No. 3	£12,000

At what values should the shares in the subsidiary Companies be shown in the books and Balance-Sheet of the parent Company ?

A. Until the shares in the subsidiary Companies are actually realized, they should not be considered to be worth more than the cost value of the property which those shares represent. Therefore, in the books and Balance-Sheet of the parent Company the shares should be valued as under—

No. 1. 10,000 shares £1 each valued at cost, viz.	£5000
No. 2. 7500 " " " "	£4000
No. 3. 12,000 " " " "	£7000

The items could be shown in the Balance-Sheet thus—

Shares in Subsidiary Companies taken at cost .	<u>£16,000</u>
------------------------------------------------	----------------

Q. A Finance Company acquires properties from time to time, and disposes of the same to new Companies formed for the purpose, receiving as consideration cash and fully-paid shares. At what value should the shares be shown in the books of the vendor Company?

A. The fully-paid shares received as part consideration for properties transferred to new Companies, should be brought into the accounts at cost—arrived at by ascertaining the difference between the cost of the properties and the promotion expenses and the proportion of cash received. The balance of expenditure represents the cost of the shares. When any of the shares are sold the proportion of profit thereon will be transferred to Profit and Loss Account, but until an actual sale of the shares takes place no profit can be properly considered to have accrued.

Describe the formalities connected with the payment of a dividend to shareholders.

A. When the dividend has been duly sanctioned, the following steps will be taken :—

1. The total amount of the dividend will be debited to Profit and Loss Account and credited to a special Dividend Account, which should be numbered in order to distinguish it from previous or future Dividends Accounts.
2. The total amount of income tax thereon at the current rate for unearned income will be debited to the Dividend Account and credited to Income Tax Account.
3. The Company's bankers will be authorized to transfer to a separate Dividend Account the net amount payable to the shareholders. In the Company's books Dividend Account will be debited and Bank (Current) Account credited with the same amount.
4. A Dividend List will be made out, showing the amount payable to each shareholder, thus—

DIVIDEND NOTICE

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For the purpose of preparing this list the share transfer books of the Company are closed, if necessary, for a period of three or four days, notice thereof being advertised.

5. Notices of the dividend, with dividend warrants attached, will then be sent to the shareholders. As the warrants are presented to the bank for payment, the Dividend Account at the bank will be debited, and the warrants sent to the Company's office, where a record of the payments will be made in the Dividend List.
6. The balance at the bank to the credit of the Dividend Account will represent the amount of unclaimed dividends on any given date, and should agree with the total items not paid, as shown by the Dividend List. Unclaimed dividends will be included in the Balance-Sheet as a liability, and the balance at the bank on Dividend Account will be shown as an asset.

The following is a form of dividend notice and warrant:—

THE X. Y. Z. COMPANY, LTD.

Dividend Notice.

To James Wilson, Esq.,
Lincoln's Inn, W.C.

No. .

Dividend at the rate of 5 per cent. for the year 1909 on £2000										£	s.	d.
of Ordinary Shares	.	.	.	.	.	.	.	.	.	100	0	0
Less Income Tax at 1s. 2d. in the £	.	.	.	.	.	.	.	.	.	5	16	8
										94	8	4

Should exemption from Income Tax be claimed, this notice can be produced to the Inland Revenue Claims Department.

A. BLACK, *Secretary*.

THE X. Y. Z. COMPANY, LTD.

Ordinary Shares Dividend Warrant.

No. .

London County and Westminster Bank, Limited,
Lombard Street, E.C.

Date .

Pay to James Wilson, Esq., or order, the sum of ninety-four pounds three shillings and fourpence.

£94 3s. 4d.

For the X. Y. Z. Company, Limited.

CHARLES GORDON, *Director*.

A. BLACK, *Secretary*.

CHAPTER XXXII

The Double Account system—Definition—Object—How achieved—Example of accounts for a Water Company—Depreciation—How provided for—Special feature of Balance-Sheet of Electric Lighting Company—Parliamentary and Chartered Companies.

Q. What is meant by the Double Account system, and to what special class of companies is the system applicable?

A. The Double Account system is a system of submitting the final accounts of companies formed to construct works of a permanent character in such a manner as to show the amount of capital raised and expended in accounts separated from those which relate to general liabilities and assets. The system is applicable to all such companies, and is compulsory in the case of Parliamentary Companies.

Q. What are the objects of the Double Account System, and how are they achieved?

A. The objects are to show that the amount of capital raised, and the purposes for which it has been expended, are in accordance with statutory authority.

For this purpose the Balance-Sheet is divided into two parts, the first of which is called the Capital Account, and shows on the credit side the amount of capital raised, and on the debit side the amount of capital expended. The balance of Capital Account is carried to the second part, which is in the form of an ordinary Balance-Sheet, and shows the floating assets, liabilities, and outstanding balances on revenue accounts.

The statutory forms of accounts to be submitted vary according to the nature of the undertaking. Special forms are provided for—

Railway Companies.

Gas Companies.

Water Companies.

Electric Lighting Companies.

Give a form of Double Account applicable to a Water Company.

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DR.

CR.

DR.

	£	s.	d.	£	s.	d.
To Balance of Capital Account	9769	0	0			
" Profit and Loss Account	3750	0	0			
" Reserve Account	2000	0	0			
" Sundry Outstanding Accounts	3320	0	0			
By Stores in hand—						
Pipes, Valves, etc.				840	0	0
House Stores				320	0	0
Debtors—						
For Water Rates				3920	0	0
" Sundries				320	0	0
Balance—						
At Bankers				13,300	0	0
In hand				139	0	0
	18,839	0	0			
				18,839	0	0

Q. How is provision made for depreciation under the Double Account system?

A. The loss in value of capital assets is not shown in the Capital Account, the amount of capital expenditure being treated as a permanent item, whether fully represented by assets or not. Provision for depreciation is made by charging to Revenue Account the cost of all repairs and renewals, and generally the cost of maintaining the works in a state of efficiency to carry out the purpose for which they were constructed. In the case of Gas Companies and Electric Lighting Companies a Depreciation Fund is created by debiting revenue each year with a fixed sum. Where this is done all repairs and renewals are charged to the Depreciation Fund Account.

Q. Is the balance of Capital Account always transferred to the General Balance-Sheet?

A. No; the forms prescribed by the Board of Trade for Electric Lighting Companies provide for the totals of capital raised and expended being shown on the Dr. and Cr. sides of the Balance-Sheet instead of the balance of the Capital Account.

Q. What is meant by the term "Parliamentary Companies"?

A. The term "Parliamentary Companies" refers to those companies which are formed by special Act of Parliament, and are not, therefore, registered under the Companies (Consolidation) Act, 1908. Parliamentary Companies are usually formed to carry out undertakings of a public character, involving the compulsory sale and purchase of land, or the right of access thereto, for which special Parliamentary authority is required. Hence, Railway Companies, Gas Companies, Water Companies, etc., are formed under special authority, each company having its own special Act of Parliament.

Q. What is meant by the term "Chartered Company"?

A. A Chartered Company is one which is formed by a Special Charter granted by the Crown. Such a company is the British South Africa Company.

CHAPTER XXXIII.

Depreciation—Definition—Causes of—Necessity for providing for depreciation—Wear and tear—Obsolescence—Machinery Account—Writing off a percentage of diminishing value—How depreciation shown in Balance-Sheet—New and Old Machinery Accounts—Reserves—Definition—Special and general reserves—Distinction between Reserve Account and Reserve Fund—Entries necessary to create a reserve—Secret reserves—How created—Their advantages and disadvantages—Sinking Funds—Definition—Premium on lease—Depreciation of a lease—Different methods employed—Simple method—Annuity system and Sinking Fund method illustrated and compared—Redemption policy method—How dealt with in books—Redemption of debentures out of profits—Entries involved and final result produced—Redemption of debentures out of Capital.

Q. What is depreciation?

A. Depreciation is the diminution in value of any asset from any cause.

Q. What are the ordinary causes of depreciation?

A. Depreciation may be caused by—

1. Wear and tear.
2. Obsolescence.
3. A fall in market value.
4. Effluxion of time.

Q. Why is it necessary, when preparing a Balance-Sheet, to provide for depreciation?

A. Depreciation must be provided for, in order that the assets may be shown at their true values, and in order that each year's or half-year's profit may bear a fair share of the loss due to depreciation.

Q. How is provision made for depreciation of plant, machinery, loose tools, etc.?

A. Depreciation due to wear and tear of plant, machinery, loose tools, etc., may be provided for—

1. By estimating the number of years during which the

asset will be in use, and charging to Profit and Loss each year a fixed proportion of the original cost.

2. By charging to Profit and Loss each year a fixed percentage of the diminishing value of the asset.
3. By periodical and independent valuations, and charging to Profit and Loss the amount of depreciation disclosed thereby.

Q. How should Loose Tools Account be dealt with at balancing time?

A. The opening balance should be debited to Trading Account, and the value at the end of the period should be brought to credit of Trading Account and carried forward in the same manner as stock-in-trade.

Q. How is provision made for depreciation caused by obsolescence?

A. When machinery becomes out of date and is replaced by new machinery, the loss resulting from the sale of the old machinery must be charged to Profit and Loss, but when the amount is comparatively large and the circumstances exceptional, the charge to Profit and Loss may be spread over a period of two or three years.

Q. What are the usual rates of depreciation applicable to various assets?

A. The rates of depreciation vary in special circumstances, but the following are generally used: Engines 5%, Boilers 10%, Engines and Boilers together $7\frac{1}{2}\%$, Plant and Machinery 5% to 10%, Furniture $7\frac{1}{2}\%$, Locomotives 10%, Waggon 7½%, Casks 10% to 20%, Ships 5%, Freehold Buildings $2\frac{1}{2}\%$ to 5%. These rates are usually calculated on the diminishing values.

A. buys machinery on January 1, 1907, for £1000, and annually provides for depreciation by writing off 10 per cent. of the diminishing value. Show his Machinery Account for the first three years.

A.—

Dr.		MACHINERY ACCOUNT.						Cr.	
1907. Jan. 1	To Cash .	£ 1000	s. 0	d. 0	1907. Dec. 31	By Profit and Loss Deprecia- tion . " Balance down .	£ 100 900	s. 0 0	d. 0 0
		1000	0	0			1000	0	0
1908. Jan. 1	To Balance down .	900	0	0	1908. Dec. 31	By Profit and Loss Deprecia- tion . " Balance down .	90 810	0 0	0 0
		900	0	0			900	0	0
1909. Jan. 1	To Balance down .	810	0	0	1909. Dec. 31	By Profit and Loss Deprecia- tion . " Balance down .	81 729	0 0	0 0
		810	0	0			810	0	0
1910. Jan. 1	To Balance down .	729	0	0					

Q. How would the above-mentioned asset be shown in the Balance-Sheet from year to year ?

A. The asset would appear as follows :—

Balance Sheet, Dec. 31, 1907.	£	s.	d.	£	s.	d.
By Machinery	1000	0	0			
Less Depreciation	100	0	0			
				900	0	0
Balance Sheet, Dec. 31, 1908.						
By Machinery	900	0	0			
Less Depreciation	90	0	0			
				810	0	0

and so on.

On July 1, 1910, Brown has machinery valued in his books at £300. As it is obsolete, he decides to replace it with new machinery, which cost £1000, including erection. The old machinery was sold and realized £50 net. Show the Old and New Machinery Accounts.

A.—

Dr.		(NEW) MACHINERY ACCOUNT.						Cr.		
1910.			£	s.	d.			£	s.	d.
July 1	To Cash .		1000	0	0					

Dr.		(OLD) MACHINERY ACCOUNT.						Cr.	
1910.		£	s.	d.	1910.		£	s.	d.
July 1	To Balance .	300	0	0	July 1	By Cash .	50	0	0
					"	" Deprecia- tion trans- ferred to Profit and Loss Acct.	250	0	0
		<u>300</u>	<u>0</u>	<u>0</u>			<u>300</u>	<u>0</u>	<u>0</u>

Q. What is a Reserve?

A. A Reserve is a sum set aside out of profits to meet a contingent loss or liability. Reserves may be either—

- (a) Special, or
- (b) General.

Special Reserves are created for definite purposes, *e.g.* to meet losses from bad debts, etc., and are shown in the Balance-Sheet as deductions from the assets to which they specially relate.

General Reserves are created for the purpose of strengthening the financial position of a business and providing for any contingency that may arise; they are shown in the Balance-Sheet as separate items on the Dr. (liabilities) side.

Distinguish between Reserve Account and Reserve Fund.

A. A Reserve Account shows on the credit side the amount of the reserve.

A Reserve Fund is an asset which may be in the form of a specific investment, or it may be included amongst the general assets of the business.

Q. What entries are necessary to create a Reserve?

A. Profit and Loss Account is debited and Reserve Account is credited with the amount of the reserve.

Q. If the Reserve is invested outside the business, what further entries are necessary?

A. The investment of the Reserve necessitates entries debiting an Investment Account and crediting Cash Account.

Q. What is a Sinking Fund?

A. A Sinking Fund is composed of sums set aside from time to time and invested at compound interest for the purpose of accumulating a certain amount at the end of a given period. It is generally created to replace an asset or to discharge a liability.

Explain three methods of providing for the depreciation of a lease.

A. Provision for the depreciation of a lease may be made as follows:—

1. By dividing the cost of the lease by the term and charging Profit and Loss with an equal proportion each year. This method is frequently adopted for short leases.
2. By the Annuity System, under which the cost of the lease is regarded as rent paid in advance, and each year's Profit and Loss Account is debited with a fixed amount, which is arrived at after allowing for interest on the outstanding balances on the Lease Account from year to year, such interest being debited to Lease Account and credited to Interest Account.
3. By creating a Sinking Fund to provide for the extinction of the Lease Account at the end of the term and the purchase of a new lease.

On January 1, 1907, X. purchased for £1000 a lease having 10 years to run. Prepare accounts illustrating the three methods of providing for the depreciation of the lease.

DEPRECIATION OF LEASES

A.—

FIRST OR SIMPLE METHOD.

DR.

LEASE ACCOUNT.

CR.

		£	s.	d.			£	s.	d.
1907.					1907.				
Jan. 1	To Cash . . .	1000	0	0	Dec. 31	By Profit and Loss	100	0	0
					"	" Balance . . .	900	0	0
		1000	0	0			1000	0	0
1908.					1908.				
Jan. 1	To Balance . . .	900	0	0	Dec. 31	By Profit and Loss	100	0	0
					"	" Balance . . .	800	0	0
		900	0	0			900	0	0
1909.					1909.				
Jan. 1	To Balance . . .	800	0	0	Dec. 31	By Profit and Loss	100	0	0
					"	" Balance . . .	700	0	0
		800	0	0			800	0	0
1910.					1910.				
Jan. 1	To Balance . . .	700	0	0	Dec. 31	By Profit and Loss	100	0	0
					"	" Balance . . .	600	0	0
		700	0	0			700	0	0
1911.					1911.				
Jan. 1	To Balance . . .	600	0	0	Dec. 31	By Profit and Loss	100	0	0
					"	" Balance . . .	500	0	0
		600	0	0			600	0	0
1912.					1912.				
Jan. 1	To Balance . . .	500	0	0	Dec. 31	By Profit and Loss	100	0	0
					"	" Balance . . .	400	0	0
		500	0	0			500	0	0
1913.					1913.				
Jan. 1	To Balance . . .	400	0	0	Dec. 31	By Profit and Loss	100	0	0
					"	" Balance . . .	300	0	0
		400	0	0			400	0	0
1914.					1914.				
Jan. 1	To Balance . . .	300	0	0	Dec. 31	By Profit and Loss	100	0	0
					"	" Balance . . .	200	0	0
		300	0	0			300	0	0
1915.					1915.				
Jan. 1	To Balance . . .	200	0	0	Dec. 31	By Profit and Loss	100	0	0
					"	" Balance . . .	100	0	0
		200	0	0			200	0	0
1916.					1916.				
Jan. 1	To Balance . . .	100	0	0	Dec. 31	By Profit and Loss	100	0	0

ANNUITY SYSTEM

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SECOND METHOD—ANNUITY SYSTEM.

DR.		LEASE ACCOUNT.					CR.		
		£	s.	d.			£	s.	d.
1907.					1907.				
Jan. 1	To Cash . . .	1000	0	0	Dec. 31	By Profit and Loss . .	129	10	0
Dec. 31	„ 5% Interest . .	50	0	0	„	„ Balance down . .	250	10	0
		1050	0	0			1050	0	0
1908.					1908.				
Jan. 1	To Balance down . .	920	10	0	Dec. 31	By Profit and Loss . .	129	10	0
Dec. 31	„ 5% Interest . .	46	0	0	„	„ Balance down . .	837	0	0
		966	10	0			966	10	0
1909.					1909.				
Jan. 1	To Balance down . .	837	0	0	Dec. 31	By Profit and Loss . .	129	10	0
Dec. 31	„ 5% Interest . .	41	17	0	„	„ Balance down . .	749	1	6
		878	17	0			878	17	0
1910.					1910.				
Jan. 1	To Balance down . .	749	1	6	Dec. 31	By Profit and Loss . .	129	10	0
Dec. 31	„ 5% Interest . .	37	9	5	„	„ Balance down . .	857	6	11
		786	16	11			786	16	11
1911.					1911.				
Jan. 1	To Balance down . .	657	6	11	Dec. 31	By Profit and Loss . .	129	10	0
Dec. 31	„ 5% Interest . .	32	17	4	„	„ Balance down . .	560	14	3
		690	4	3			690	4	3
1912.					1912.				
Jan. 1	To Balance down . .	560	14	3	Dec. 31	By Profit and Loss . .	129	10	0
Dec. 31	„ 5% Interest . .	28	0	9	„	„ Balance down . .	459	8	0
		588	15	4			588	15	4
1913.					1913.				
Jan. 1	To Balance down . .	459	8	0	Dec. 31	By Profit and Loss . .	129	10	0
Dec. 31	„ 5% Interest . .	27	19	3	„	„ Balance down . .	352	14	3
		482	4	3			482	4	3
1914.					1914.				
Jan. 1	To Balance down . .	352	14	3	Dec. 31	By Profit and Loss . .	129	10	0
Dec. 31	„ 5% Interest . .	17	12	9	„	„ Balance down . .	246	17	0
		370	7	0			370	7	0
1915.					1915.				
Jan. 1	To Balance down . .	246	17	0	Dec. 31	By Profit and Loss . .	129	10	0
Dec. 31	„ 5% Interest . .	12	0	10	„	„ Balance down . .	123	7	10
		252	17	10			252	17	10
1916.					1916.				
Jan. 1	To Balance down . .	123	7	10	Dec. 31	By Profit and Loss . .	129	10	0
Dec. 31	„ 5% Interest . .	6	2	2			129	10	0
		129	10	0			129	10	0

SINKING FUND SYSTEM

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Dr. SINKING FUND INVESTMENT ACCOUNT. Cr.

		£	s.	d.	1916.		£	s.	d.
1907.									
Dec. 31	To Cash .	79	10	0	Dec. 31	By Cash .	1000	0	0
1908.									
Dec. 31	To 5% Int. .	8	19	0					
"	" Cash .	79	10	0					
		162	19	0					
1909.									
Dec. 31	To 5% Int. .	8	8	0					
"	" Cash .	79	10	0					
		250	12	0					
1910.									
Dec. 31	To 5% Int. .	12	10	8					
"	" Cash .	79	10	0					
		342	13	2					
1911.									
Dec. 31	To 5% Int. .	17	2	8					
"	" Cash .	79	10	0					
		439	5	10					
1912.									
Dec. 31	To 5% Int. .	21	19	4					
"	" Cash .	79	10	0					
		540	15	2					
1913.									
Dec. 31	To 5% Int. .	27	0	9					
"	" Cash .	79	10	0					
		647	5	11					
1914.									
Dec. 31	To 5% Int. .	32	7	8					
"	" Cash .	79	10	0					
		759	8	2					
1915.									
Dec. 31	To 5% Int. .	37	19	2					
"	" Cash .	79	10	0					
		876	12	4					
1916.									
Dec. 31	To 5% Int. .	43	16	8					
"	" Cash .	79	11	0					
		1000	0	0					

Point out the special features of each of these three methods.

A. The first method charges Profit and Loss with the initial cost of the lease (£1000) in equal sums each year.

The second method charges Profit and Loss with the cost of the lease, but in a more accurate manner, that is to say, the cost of the lease is regarded as £1000 plus interest on the outstanding balances from year to year. Taking 5 per cent. as the rate of interest, a reference to Inwood's Tables will show that it is necessary to charge to Profit and Loss £129 10s. 0d. annually in order to exhaust the Lease Account in ten years.

The third method not only charges Profit and Loss with the cost of the lease, but also provides a fund for its renewal at the same price at the end of the term. Thus the third method involves two distinct sets of entries each year, viz.—

1. The debit to Profit and Loss and credit to Sinking Fund Account.
2. The debit to an Investment Account and credit to Cash Account.

A reference to Inwood's Tables will show that to accumulate £1000 in ten years by annual investments bearing compound interest at 5 per cent., it is necessary to set aside each year £79 10s. 0d. Therefore each year Profit and Loss is debited and Sinking Fund Account is credited with £97 10s. 0d. In addition, £79 10s. 0d. is taken out of Cash and invested. The interest is added to the investment each year and credited to the Sinking Fund Account and not to Profit and Loss. Therefore the amount actually invested each year is £79 10s. 0d. plus the year's interest.

The Sinking Fund Account is frequently called Depreciation Fund Account.

A careful consideration of the second and third methods will show that each year Profit and Loss is affected to the same extent under each method. Take, for example, the year ending Dec. 31, 1911.

		£	s.	d.
By the Annuity System—				
Profit and Loss is debited		129	10	0
And Interest Account credited		32	17	4
Therefore the net charge against Profit and Loss is .		96	12	8
By the Sinking Fund System—				
Profit and Loss is debited		79	10	0
And interest earned but not credited to Profit and Loss .		17	2	8
Therefore the net charge against Profit and Loss is .		96	12	8

Under the Sinking Fund System the interest earned might properly be credited to Interest Account and afterwards to Profit and Loss. It would then be necessary to debit Profit and Loss with £96 12s. 8d., which is the actual charge against profit for the year. This fact is a little obscured by the direct transfer of interest from Investment Account to the credit of Sinking Fund Account.

Q. What is a Secret Reserve, and how is it created?

A. A Secret Reserve is a reserve which exists but is not disclosed in the Balance-Sheet. It is created by—

1. Writing down assets, such as premises, below their real value;
2. Creating reserves for bad debts in excess of requirements;
3. Charging to revenue expenditure of a capital nature.

Q. What are the advantages and disadvantages of Secret Reserves?

A. The advantages are—

1. Extraordinary losses may be met without disturbing the financial strength of the undertaking as disclosed in the annual accounts.
2. Dividends at a uniform rate may be maintained.

The disadvantages are—

The Profit and Loss Account and the Balance-Sheet do not show the actual results of trading and the true financial position.

Q. What is a Premium on a Lease?

A. A Premium on a Lease is the amount paid for a lease of premises for a fixed term. An annual rent is usually payable in addition to the premium.

Q. How is a premium on lease dealt with in the books?

A. The amount paid is debited to a Lease Account, and, as the premium will be of no value at the end of the term, provision must be made each year for depreciation.

Q. A. B., having purchased a lease for £1000, decides to provide for depreciation by taking out a policy for leasehold redemption. How should the annual premiums be dealt with in the books? and what adjustments will be necessary when the lease expires and the policy matures?

A. The annual premiums will be debited to Profit and Loss and credited to a Leasehold Redemption Account (= Depreciation or Sinking Fund Account). As the premiums are paid, a Policy Account will be debited and Cash will be credited.

The Policy Account should be maintained at its surrender value, which is usually the amount of premiums paid (less the whole or part of the first premium) plus 2 per cent. compound interest. This interest will be debited to Policy Account and credited to Leasehold Redemption Account. When the policy matures, a larger sum will be received than is shown in the Policy Account, which has been maintained at the surrender value only. The difference will be debited to Policy Account and credited to Leasehold Redemption Account. The last-named account will be closed by transfer to Lease Account, and the cash received under the policy will be available for the purchase of a new lease.

A Company issued debentures for £20,000, redeemable at a premium of 5 per cent. in 10 years. The directors decided to apply a part of the annual profits to raise a Sinking Fund to redeem the debentures, including the premium. Draft the Journal entries (excluding figures) showing how this arrangement will affect the accounts; also show the Ledger accounts as they will appear at the end of the 10 years, before the redemption takes place.

A.—

JOURNAL ENTRIES.

FIRST YEAR.		£	s.	d.	£	s.	d.
Profit and Loss Appropriation Account	Dr.						
To Debenture Redemption Account							
For amount of Profits set aside for redemption of Debentures.							
Investment Account	Dr.						
To Cash							
Being the investment of the sum set aside out of Profits for redemption of Debentures.							
SECOND AND SUBSEQUENT YEARS.							
Investment Account	Dr.						
To Debenture Redemption Account							
For compound interest on investment, representing the Fund for redemption of Debentures.							
Profit and Loss Appropriation Account	Dr.						
To Debenture Redemption Account							
For amount of Profits set aside for redemption of Debentures.							
Investment Account	Dr.						
To Cash							
Being the investment of the sum set aside out of Profits for redemption of Debentures.							

LEDGER ACCOUNTS.

Dr.		DEBENTURE-HOLDERS' ACCOUNT.						Cr.	
		£	s.	d.				£	s. d.
						By Cash .		20,000	0 0

Dr.		DEBENTURE REDEMPTION ACCOUNT.						Cr.	
		£	s.	d.				£	s. d.
						By Profit and Loss. By Investment Account for Interest .		21,000	0 0

Dr.		INVESTMENT ACCOUNT.						Cr.	
		£	s.	d.				£	s. d.
	To Cash . „ Interest	21,000	0	0					

Show by Journal and Ledger entries how the redemption will be effected, and the final result.

A.—

JOURNAL.

	£	s.	d.	£	s.	d.
Cash Dr.	21,000	0	0			
To Investment Account . .				21,000	0	0
For amount realized.						
Debenture Redemption Account .	1000	0	0			
To Debenture Holders' Account . .				1000	0	0
For premium payable on Debentures.						
Debenture-Holders Dr.	21,000	0	0			
To Cash				21,000	0	0
Debenture Redemption Account Dr.	20,000	0	0			
To Reserve Account				20,000	0	0
Balance transferred.						

D.A.B.

R

REDEMPTION OF DEBENTURES

LEDGER.

DR. DEBENTURE-HOLDERS' ACCOUNT. CR.

		£	s.	d.			£	s.	d.
To Cash . .		21,000	0	0	By Cash . .		20,000	0	0
					„ Debenture Redemption Account .		1000	0	0
		<u>21,000</u>	<u>0</u>	<u>0</u>			<u>21,000</u>	<u>0</u>	<u>0</u>

DR. DEBENTURE REDEMPTION ACCOUNT. CR.

		£	s.	d.			£	s.	d.
To Debenture-Holders .		1000	0	0	By Profit and Loss .				
„ Reserve Account .		20,000	0	0	Investment Account for Interest .				
		<u>21,000</u>	<u>0</u>	<u>0</u>			<u>21,000</u>	<u>0</u>	<u>0</u>
							<u>21,000</u>	<u>0</u>	<u>0</u>

DR. INVESTMENT ACCOUNT. CR.

		£	s.	d.			£	s.	d.
To Cash . . }		21,000	0	0	By Cash . .		21,000	0	0
„ Interest . }									
		<u>21,000</u>	<u>0</u>	<u>0</u>			<u>21,000</u>	<u>0</u>	<u>0</u>

DR. RESERVE ACCOUNT. CR.

		£	s.	d.			£	s.	d.
					By Debenture Redemption Account .		20,000	0	0

EFFECT OF REDEMPTION OUT OF PROFITS 243

The result is to leave a balance of £20,000 to the credit of Debenture Redemption Account, which, having been raised out of profits, may be transferred to a Reserve Account. This arises from the fact that £21,000 is raised out of revenue to provide for a loss of £1000—the amount of the premium. The liability to repay the £20,000 actually received from the debenture-holders is not a loss, and the charges against revenue to provide for such repayment has the effect of creating a reserve.

A simple example will demonstrate the truth of the foregoing statement. X. borrows from A. Lender £100. The accounts in X.'s book will stand thus—

Dr.		A LENDER.				Cr.	
		£	s.	d.	By Cash	£	s. d.
						100	0 0

Dr.		CASH.				Cr.	
To a Lender		£	s.	d.		£	s. d.
		100	0	0			

When X. repays the loan, the accounts will stand thus—

Dr.		A LENDER.				Cr.	
To Cash		£	s.	d.	By Cash	£	s. d.
		100	0	0		100	0 0

DR.		CASH.			CR.	
		£	s.	d.		£ s. d.
	To a Lender	100	0	0	By a Lender	100 0 0

Profit and Loss Account is not really affected. Therefore if X. debits his Profit and Loss Account, he is creating a reserve. Profit and Loss is only affected by the cost of the loan, viz. interest or premium, as the case may be.

Q. A Company issued debentures for £20,000 at a discount of 5%. They were redeemable at par 10 years after the date of issue, and the directors decide to provide for the redemption by means of a Sinking Fund raised, as to £19,000, out of capital, and, as to £1000, out of revenue. What steps will be necessary to give effect to this decision, and how will the facts be recorded in the Company's books?

A. In order to raise a Sinking Fund out of capital it is only necessary to debit Investment Account and Credit Cash Account each year with the amount to be set aside, adding to the annual amount invested the interest which will accrue from year to year. In this way the sum of £19,000 would be raised without making any charge against Profit and Loss. The balance of £1000, representing the discount, would be raised by debiting Profit and Loss and crediting a Sinking Fund Account with a certain amount each year, and investing such amount at compound interest as shown in the examples given.

CHAPTER XXXIV.

Income Tax—Definition—Persons liable therefor—Differentiation—Rates of tax payable—Earned and unearned income—Exemptions—Abatements—Dividends paid “free of Income Tax”—Taxing income at its source—Official year of assessment—Different sources of income—Schedules A, B, C, D, E—Bases of assessments under Schedules A, B, C, D—Deductions not allowed—Reasons therefor—Deductions allowed—Exclusion of Capital profits and losses from return of income—Claim for wear and tear of plant, etc.—Assessments under Schedule E—Claims in respect of life assurance premiums—Claims in respect of children under 16.

Q. What is Income Tax ; and what persons are liable therefor ?

A. Income Tax is a tax on the income of individuals, and is payable by all persons resident in the United Kingdom, and by all other persons in respect of income derived from property in the United Kingdom.

Q. What is meant by the principle of differentiation as applied to Income Tax ?

A. In determining the amount of Income Tax (if any) to be paid by a person, the Legislature differentiates between—

- (a) Small and large incomes.
- (b) Earned and unearned incomes.

Q. How does the Legislature differentiate between small and large incomes ?

A. Individuals whose total income does not exceed £160 per annum, are entirely exempt from liability to pay Income Tax.

Individuals whose income exceeds £160, but does not exceed £700 per annum, are allowed certain abatements.

To persons whose income does not exceed £500 relief is granted in respect of children under 16 years of age. Where the income is earned, the relief amounts to nine times 10*d.*, or 7*s.* 6*d.* for each child ; and where the income is unearned the relief amounts to fourteen times 10*d.*, or 11*s.* 8*d.* for each child.

Persons whose income exceeds £5000 are required to pay a super-tax of 6*d.* per £ on that part of their income in excess of £3000.

The rate of tax payable on earned incomes is 9*d.* when the income does not exceed £2000, but when it exceeds £2000 the tax is 1*s.* 2*d.*, except that when the earned income does not exceed £3000 the rate of tax is 1*s.* per £. (Finance Act (1909-10), 1910.)

Q. How does the Legislature differentiate between earned and unearned incomes?

A. The rate of tax payable on earned incomes not exceeding £2000 is 9*d.*, while the rate of tax payable on unearned incomes not exceeding £5000 is 1*s.* 2*d.*

Q. What is Earned Income?

A. Earned Income is any income derived as a result of personal effort, such as the salary of a clerk, the fees of a doctor, the profits of a business.

Q. What is Unearned Income?

A. Unearned Income is income derived otherwise than as a result of personal effort, such as income from investments, interest on loans, rents of property, etc.

Q. Is exemption from liability to pay Income Tax allowed other than to individuals whose income is less than £160?

A. Exemption from Income Tax is allowed to any registered friendly society, and to any registered trade union if the society or union is restricted by Statute or by their rules from assuring to any person any sum exceeding £300 by way of gross sum or £52 a year by way of annuity. Charitable institutions and Trustees Savings Banks are also exempt.

Exemption is also allowed in respect of interest and dividends on securities of a foreign state or British possession which are payable in the United Kingdom, where it is proved that the person owning the securities and entitled to the interest is not resident in the United Kingdom. (Finance Act (1909-10), 1910.)

Q. What abatements are allowed to persons whose incomes do not exceed £700?

A. The following abatements are allowed:—

When the income exceeds—

£160 but does not exceed £400, an abatement of £160 is allowed.

£400	"	"	£500	"	"	£150	"
£500	"	"	£600	"	"	£120	"
£600	"	"	£700	"	"	£70	"

But no exemption (other than that above mentioned), abatement, or relief is allowed to persons not resident in the United Kingdom in respect of income derived in the United Kingdom, except persons in the service of the Crown or any Missionary Society or resident in the Isle of Man or Guernsey Island, and any person resident abroad who can satisfy the Commissioners that he is so resident for the sake of his health. (Finance Act (1909-10), 1910.)

Q. Are these exemptions and abatements allowed to Joint Stock Companies?

A. The exemption and abatements only apply to individuals. A Joint Stock Company represents a number of individuals, who may or may not be entitled to exemption or abatement. Income Tax is payable by a Company at the higher rate on the whole of its annual profits whether distributed or not. When distributing profits amongst its shareholders, a Company is entitled to deduct the proportion of Income Tax on the amount of dividend paid to each shareholder, the Company having in effect paid the tax on the shareholder's behalf. If, however, a shareholder is entitled to exemption, he may claim repayment from the Inland Revenue of the tax on the amount of his dividends, or if, after allowing for the proper abatement, the amount of tax deducted is in excess of the amount for which the shareholder is actually liable, the amount of such excess tax may be recovered on a claim for repayment.

Q. What is meant by the expression "Dividends paid free of Income Tax"?

A. Dividends "free of Income Tax" is a misnomer, as dividends are not free of Income Tax. Sometimes a Company pays a dividend of say 10 per cent. without deduction for Income Tax. Income Tax has, nevertheless, been paid by the Company as representing the shareholders, and a dividend of 10 per cent. "free of tax" is really a dividend of more than 10 per cent. For example, if Income Tax is 1s. 2d., a dividend of 10 per cent. "free of tax" on £100 is really a dividend of £10 12s. 5d., and a shareholder who is exempt from liability to pay tax would be entitled to claim repayment of 12s. 5d. in such a case.

Q. What is meant by taxing income at its source?

A. Taxing income at its source takes place when the tax is deducted from payments in the nature of income, and the balance only is paid to the person entitled thereto. This principle is applied to interest, dividends, etc., under Schedule C;

also to interest on loans, mortgages, and to rents, royalties, etc. The person or authority deducting the tax becomes a trustee for the Inland Revenue, and is responsible for due payment thereof.

Q. What is the official year of assessment?

A. The year of assessment means from April 5 to April 5, which is the financial year of the Government.

Q. In what manner does the Legislature recognize the various sources from which income is derived?

A. For the purposes of Income Tax the following different sources of income are recognized, viz.:—

1. Income derived from the ownership of land and buildings.
2. Income derived from the occupation of land.
3. Income derived from investments.
4. Income derived from the carrying on of a trade, profession, or other employment.
5. Income derived from a public office or appointment.

Income Tax is therefore claimed under five different schedules corresponding with the five recognized sources of income, viz.—

Schedule A, or landlord's tax.

Schedule B, or farmer's tax.

Schedule C, relating to investments.

Schedule D, relating to profits from trade, etc.

Schedule E, relating to salaries.

As there are different schedules, so there are different methods of arriving at the amount upon which the tax is to be paid.

Q. How is the amount of income under Schedule A arrived at?

A. The Income Tax payable under Schedule A is based upon the net annual value of the land or buildings from which the income is derived. The net annual value is ascertained from the gross annual value, that is, the annual sum a tenant might reasonably be expected to pay for the use of the land or buildings. From the gross annual value of ordinary buildings an allowance of one-sixth is made to cover the cost of repairs, depreciation, etc., and the balance is the net annual value upon which Income Tax is payable. In the case of land and farm buildings the allowance is one-eighth instead of one-sixth. Thus in the case of ordinary building premises let at a rental of £360 per annum, and assessed at £360 gross, the net annual value would be £300, and Income Tax would be paid on that

amount. In the case of farm buildings assessed at £360 gross, the net annual value for Income Tax purposes would be £315.

The Finance Act (1909-10), 1910, provides that if the owner of any land or houses shows that the cost to him of maintenance, repairs, insurance, and management, according to the average of the preceding five years, has exceeded in the case of land one-eighth part of the annual value under Schedule A, and in the case of houses one-sixth part of that value, he shall be entitled, on making a claim, to repayment of the amount of tax on the excess, not exceeding in the case of land one-eighth part, and in the case of houses one-twelfth part of the duty on an amount equal to the annual value. The term "maintenance" includes replacement of farm houses, farm buildings, cottages, fences, and other works where the replacement is necessary to maintain existing rents.

It therefore appears that if the owner of land let at £360, and assessed under Schedule A at £315 net, can show that his average expenditure on maintenance is, say £80 per annum, he will be entitled to claim repayment of tax on £35, which at 1s. 2d. = £2 0s. 10d., such amount not being in excess of one-eighth part of the tax on £315, viz. £18 7s. 6d. In similar circumstances the owner of houses would be entitled to claim repayment of a sum not exceeding one-twelfth part of the tax on the annual value under Schedule A.

Q. What rate of Income Tax is payable under Schedule A?

A. Income derived under Schedule A is, with certain exceptions, treated as unearned, and is therefore subject to tax at the higher rate of 1s. 2d. Such income would be treated as earned if it formed part of the emoluments of an office of personal employment.

Q. How is Income Tax under Schedule A collected?

A. The tax under Schedule A is collected from the tenant, who is given a statutory right to deduct the tax from the next rent payable. A tenant cannot, however, deduct more than 1s. 2d. in the £ on the rent actually paid. That is to say, if premises are let at £40, but are assessed at £50 net, the tax under Schedule A will be $50 \times 1s. 2d. = £2 18s. 4d.$, which will be paid by the tenant, who will be allowed to deduct from the rent next payable $40 \times 1s. 2d. = £2 6s. 8d.$, and no more.

Q. How is the amount of tax payable under Schedule B arrived at?

A. Income under Schedule B, called the farmer's tax, is

based upon the gross annual value of the property, the occupier being assessed at one-third of the amount of such value. Thus a farmer who pays £120 a year rent, and whose land is assessed at £120 per annum gross under Schedule A, would be assessed under Schedule B at £40, which would be deemed to be his annual profits derived from the farm. The farmer has, however, the right to be assessed on the basis of his actual profits, provided that notice is given to the district surveyor of taxes before June 6 in the year of assessment that he desires to be so assessed.

Q. What is the rate of tax payable under Schedule B?

A. Income under Schedule B, being earned, is subject to tax at the lower rate, viz. 9d. in the £.

Q. How is Income Tax under Schedule C collected?

A. Schedule C relates to income derived from investments. The Income Tax is deducted from the interest or dividends before being paid, the tax so deducted being paid to the authorities in one sum on behalf of all the recipients. The rate of tax under Schedule C is 1s. 2d.

Q. How is the Income Tax payable under Schedule D arrived at?

A. Schedule D relates to profits from a business, trade, or profession, etc. The tax is based, not on the actual income, but on the statutory income arrived at by ascertaining the average profits for a period of three years ending either on April 5 or the nearest date prior thereto to which the accounts have been made up.

If a business has been commenced within three years, the amount of profit is to be calculated on the average from the period of commencement, or, if commenced, within the year of assessment, the profits are to be estimated.

In the case of mines the tax is based on the average profits of five years preceding the year of assessment, and in the cases of quarries, ironworks, gasworks, docks, railways, canals, waterworks, etc., the tax is based on the profits of the preceding year.

Q. In arriving at the profits for assessment under Schedule D, what items are not allowed to be charged against the profits of a business?

A. The following items are not allowed as deductions :—

1. Interest on capital.
2. Partners' salaries or drawings.

3. Annual charges for interest, annuities, ground rent, etc.
4. Sums expended on improvements and additions to premises.
5. Amounts written off for depreciation of land, buildings, leases, or written off goodwill or preliminary expenses.
6. Any loss or expense not connected with the trade or business.
7. Royalties.
8. Voluntary subscriptions of a general character.
9. Amounts charged against profits to create a Reserve or Sinking Fund.
10. Loss of premises or plant by fire.
11. Loss on a casual transaction unconnected with the trade or business.
12. Household expenses of persons assessable.
13. Income Tax.
14. Premiums on Life Assurance Policies or depreciation of plant, machinery, etc. ; but allowances for these may be claimed.

Q. Why are the items mentioned not allowed as charges against profit for purposes of assessment of Income Tax ?

A. Interest on capital and partners' salaries are appropriations of profit, not expenses incurred in earning profit.

Drawings are a charge against capital, not against profit.

Annual charges for interest, annuities, and ground rent are not allowed as charges, but the person assessed is entitled to deduct the tax on these items before paying them. The tax is therefore borne by the recipients, although payment thereof is made by the payer.

Improvements and additions to premises are in the nature of capital expenditure, and are not properly chargeable against revenue.

Depreciation of land, buildings, and leases is not allowed, for the reason that, in assessing the annual value of land and buildings under Schedule A, an allowance is made for depreciation, repairs, etc. The owner is entitled to charge repairs and to deduct the net annual value according to the assessment under Schedule A.

Amounts written off goodwill, preliminary expenses, etc., are losses of capital, not of revenue, and for this reason are not allowed.

Royalties are not allowed as deductions, because the person who pays them has the right to, and should, deduct the tax thereon before making payment.

Voluntary subscriptions are not regarded as trade expenses, but a subscription to a hospital where the employees are treated free of charge is allowed as a deduction, and a subscription to an association for the development and improvement of a particular trade is allowed.

Reserve and Sinking Fund charges are either appropriations of profit or provisions for loss of capital assets, and are therefore not allowed as deductions.

Loss of premises or plant by fire is a loss of capital, and not chargeable against revenue.

A casual loss unconnected with the trade is not allowed, as it is not a proper charge against profits; on the other hand, a casual profit need not be brought to credit for purposes of Income Tax assessment.

Household expenses and Income Tax are appropriations of profit and are, therefore, not allowed as deductions.

Q. What deductions are allowed in arriving at the profits for assessment under Schedule D?

A. The following deductions are allowed:—

1. Any proper expenses exclusively incurred for the purpose of the trade or business.
2. Repairs of trade premises and the cost of the supply or repair of implements, utensils, or articles employed, not exceeding the sum usually expended for such purposes according to the average of the preceding three years.
3. Bad debts actually incurred, and the estimated loss on doubtful debts.
4. Rent of business premises.
5. A proportion, not exceeding two-thirds, of the rent of any dwelling-house used partly for the purpose of carrying on the trade or business.
6. Loss of stock-in-trade by fire, after allowing for any sum received under a policy of insurance.
7. Bank charges and interest.

Q. What is a capital profit or loss; and how far is the return of profits for Income Tax affected thereby?

A. A capital profit is a profit derived from some fixed or capital asset. A. B. bought premises for £500, intending them for a branch of his business. Finding them unsuitable, he sold them for £600, thus making a capital profit of £100, which should not be brought into account for Income Tax purposes, as such a profit is not subject to tax. If the premises had been

sold for £400, there would have been a capital loss of £100, which would not be allowed as a deduction from profits assessable for Income Tax.

Capital profits and losses should be excluded from a return of profits for Income Tax assessment.

Q. What allowance may be claimed in respect of Depreciation of plant and machinery?

A. Depreciation as such is not allowed as a deduction for Income Tax purposes, but an allowance may be claimed in respect of loss by reason of the wear and tear of plant and machinery. The amount allowed for wear and tear varies in different districts from 5 to 7½ per cent. of the diminishing value. The total amount of allowances for wear and tear must not exceed the original cost of the plant and machinery.

Q. What special concession was granted to traders by the Finance Act, 1907, in connection with allowances for wear and tear?

A. The Finance Act, 1907, provided that when effect could not be given to an allowance for wear and tear in one year, the deduction or part of the deduction to which effect could not be given should be carried forward and added to the deduction of the subsequent year or years until full effect has been given thereto.

Q. A. B.'s return of profits in 1910 under Schedule D showed a net average profit of £250 for three years ended December 31, 1909, and he claimed, and was allowed, £300 for wear and tear of machinery. What (if any) tax will A. B. pay; and what right may he exercise when preparing the next year's return?

A. A. B. will not pay any tax, inasmuch as his profit of £250 is more than absorbed by the amount allowed for wear and tear, viz. £300. As effect can only be given to £250 of this allowance, the balance of £50 may be carried forward and added to the allowance for the following year.

Q. How is the Income Tax payable under Schedule E arrived at?

A. The Income Tax under Schedule E is based upon the actual amount of income received during either the year of assessment or the preceding year, and in the case of Government officials is collected by deduction from the salaries paid. In other cases payment of the tax is made direct. The income being earned, the rate of tax is 9d. in the £.

254 ALLOWANCE FOR LIFE ASSURANCE PREMIUMS

Q. What statutory obligation is imposed upon employers with regard to salaries paid by them ?

A. Sect. 21 of the Finance Act, 1907, provides that employers must furnish a list of the names and addresses of all their employees, and the amounts paid to each of them, except in cases where the total earnings of an employee do not exceed £160 per annum.

Q. Are all persons who receive salaries assessed under Schedule E ?

A. No; the clerks of a private firm are assessed under Schedule D, whereas the clerks of a Joint Stock Company are assessed under Schedule E.

Q. May persons assessed under Schedules D and E in respect of salaries claim the right to be assessed on the average amount of income during three years preceding the year of assessment ?

A. Persons assessed under Schedule D are entitled to be assessed on the average amount of income during the three years preceding the year of assessment. With regard to Schedule E the right to be assessed on the three years' average exists, but in practice the actual income received either during the year of assessment or during the preceding year is the basis of taxation.

Q. What allowance may be claimed in respect of Life Assurance Premiums ?

A. An allowance may be claimed in respect of premiums paid on the life of the claimant or that of his wife, such allowance not to exceed one-sixth of the net income. The premiums must be paid to an Insurance Company carrying on business in Great Britain or Ireland, and the allowance is to be deducted only after the assessable income has been ascertained. For example, A.'s net income is £500, which after deducting the abatement of £150, leaves £350 assessable income; he may deduct therefrom Life Assurance Premiums not exceeding one-sixth of £500.

It should be noticed, however, that under the Finance Act (1909-10), 1910, Life Insurance Premiums may be claimed as a deduction, in computing Income for purposes of Super-tax, up to an amount not exceeding one-sixth of the total Income less charges.

Q. What allowance may be claimed in respect of the children of a taxpayer?

A. When the income is less than £500, an allowance is made for every child or step-child under 16 years of age. Illegitimate children count for exemption where the parents have subsequently married. Where the income is earned, the allowance amounts to nine times 10*d.*, or 7*s.* 6*d.* for each child; where the income is unearned, the allowance amounts to fourteen times 10*d.*, or 11*s.* 8*d.* for each child.

CHAPTER XXXV.

INCOME TAX.

Assessment under Schedule D—Appeals—Preparation of accounts for assessment—Specimen accounts—Partners' assessments—Proportion of tax chargeable to each partner—How arrived at—Separate assessment of partners—Claims for abatement—Treatment of rent paid—Annual value of premises used by owner—Rent of premises partly used for business—Life assurance premiums—Depreciation—Wear and tear—Income of married women—How treated for Income Tax assessment—Examples—Directors' fees—Companies' returns for assessments.

Q. How does assessment under Schedule D take place?

A. All persons who are liable to assessment receive from the Assessor of Taxes a Form of Return (No. 11), which must be duly filled up and returned within a specified period. If the person claims exemption or abatement, or relief in respect of earned income, the claimant must furnish, in the spaces provided, particulars of every source of income, including, if married, that of his wife, whether tax has already been paid on the income or not.

Q. If a person is not satisfied with the amount of his assessment, to whom may he appeal?

A. A person may appeal either to the District or Special Commissioners, and notice of appeal must be given to the Surveyor of Taxes within the time specified in the notice of assessment. On a question of law the Commissioners may be asked to state a case for the opinion of the High Court. On a question of fact no appeal lies from the Commissioners.

Q. In preparing a return of income for assessment under Schedule D, what accounts will be required?

A. The return under Schedule D will be based upon information contained in the trader's Profit and Loss Accounts for the three years preceding the year of assessment.

A. B., who is in business as a wholesale merchant, is requested

STATEMENT OF PROFITS : SCHEDULE D 257

to fill up a return of income for assessment for the year 1910-11. His accounts are made up annually on December 31, and his Profit and Loss Accounts for the three years 1907-8-9 were as follows :—

PROFIT AND LOSS ACCOUNT FOR THE YEARS ENDED 1907, 1908, 1909.

DR.

1907, 1908, 1909.

CR.

			1907.			1908.			1909.															1907.			1908.			1909.		
			£	s.	d.	£	s.	d.	£	s.	d.													£	s.	d.	£	s.	d.	£	s.	d.
To Salaries	.		230	0	0	220	0	0	240	0	0	By Gross Profit	820	0	0	855	0	0	842	0	0											
„ Rent	.		40	0	0	40	0	0	40	0	0																					
„ Rates	.		28	0	0	29	0	0	25	0	0																					
„ Office Ex-																																
penses	.		45	0	0	40	0	0	48	0	0																					
„ Interest on																																
Loans	.		15	0	0	15	0	0	15	0	0																					
„ Interest on																																
Capital	.		110	0	0	120	0	0	130	0	0																					
„ Net Profit	.		357	0	0	391	0	0	349	0	0																					
			820	0	0	855	0	0	842	0	0					820	0	0	855	0	0	842	0	0								
			—	—	—	—	—	—	—	—	—					—	—	—	—	—	—	—	—									

Prepare an account showing what sum should be inserted in the return in respect of the profits from A. B.'s business.

A.—

STATEMENT OF PROFITS OF A. B. FOR ASSESSMENT UNDER SCHEDULE D FOR THE YEAR 1910-11.

Dr.												Cr.											
			1907.			1908.			1909.						1907.			1908.			1909.		
			£	s.	d.	£	s.	d.	£	s.	d.				£	s.	d.	£	s.	d.	£	s.	d.
To Assessable Profit . c/d			482	0	0	526	0	0	494	0	0	By Net Profit as per Accounts			357	0	0	391	0	0	349	0	0
												„ Charges not allowed, viz.											
												„ Interest on Loans.			15	0	0	15	0	0	15	0	0
												„ Interest on Capital			110	0	0	120	0	0	130	0	0
			482	0	0	526	0	0	494	0	0				482	0	0	526	0	0	494	0	0
												By Assessable Profit b/d											
												482 0 0 526 0 0 494 0 0											
												526 0 0											
												494 0 0											
												3)1502 0 0											
Profits for Assessment for 1910-11												£500 13 4											

Q. A. B. is allowed £50 for wear and tear of machinery, and £12 for Life Insurance Premiums. Assuming that he has no other source of income, for what amount of Income Tax is A. B. liable?

A. The amount of tax for which A. B. is liable would be arrived at thus—

	£	s.	d.
Average profits as per statement	500	13	4
Less Annual Charges, viz. Interest on Loans	15	0	0
	485	13	4
Less Allowance for wear and tear of machinery	50	0	0
Net Income	435	13	4
Less Abatement	150	0	0
	285	13	4
Less Allowance for Life Insurance Premiums	12	0	0
	273	13	4

A. B. would therefore pay Income Tax on £273 13s. 4d. at 9d., and on £15 (Interest on Loans) at 1s. 2d.—£11 2s. 9d.

The following are the Profit and Loss Accounts of E. Brown for the years 1907-8-9. The business premises belong to Brown, and are assessed under Schedule A at the net annual value of £136. Prepare a statement of profits for Income Tax assessment for the year 1910-11.

PROFIT AND LOSS ACCOUNTS OF E. BROWN.

DR.

CR.

	1907.			1908.			1909.				1907.			1908.			1909.		
	£	s.	d.	£	s.	d.	£	s.	d.		£	s.	d.	£	s.	d.	£	s.	d.
To Salaries	320	0	0	310	0	0	300	0	0	By Gross Profit	1250	0	0	1340	0	0	1290	0	0
„ Trade Expenses	30	0	0	32	0	0	28	0	0	„ Dividends on Investments less Tax	130	0	0	130	0	0	130	0	0
„ Interest on Loans	12	0	0	12	0	0	12	0	0	„ Interest on Deposit	54	0	0	57	0	0	52	0	0
„ Interest on Capital	120	0	0	120	0	0	120	0	0	„ Interest on Loans less Tax	10	0	0	10	0	0	10	0	0
„ Depreciation of Buildings	100	0	0	100	0	0	100	0	0										
„ Ditto of Furniture	10	0	0	10	0	0	10	0	0										
„ Ditto of Machinery	67	0	0	67	0	0	67	0	0										
„ Income Tax, Sch. A	8	0	0	8	0	0	8	0	0										
„ Ditto, Sch. D	42	0	0	40	0	0	43	0	0										
„ Net Profit	735	0	0	838	0	0	794	0	0										
	1444	0	0	1537	0	0	1482	0	0		1444	0	0	1537	0	0	1482	0	0

INCOME TAX ACCOUNTS

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4.—

STATEMENT OF PROFITS OF E. BROWN FOR ASSESSMENT UNDER
SCHEDULE D FOR THE YEAR 1910-11.

DR.

Ск.

	1907.			1908.			1909.				1907.			1908.			1909.		
	£	s.	d.	£	s.	d.	£	s.	d.		£	s.	d.	£	s.	d.	£	s.	d.
To Credit Items already taxed.										By Net Profit, as per Accounts .	735	0	0	838	0	0	794	0	0
" Dividends .	130	0	0	130	0	0	130	0	0	" Charges not allowed—									
" Interest on Loans .	10	0	0	10	0	0	10	0	0	" Interest on Loans .	12	0	0	12	0	0	12	0	0
" Net annual value of— Business premises .	136	0	0	136	0	0	136	0	0	" Interest on Capital .	120	0	0	120	0	0	120	0	0
Assessable Profits c/d	818	0	0	919	0	0	878	0	0	" Depreciation of Bldgs .	100	0	0	100	0	0	100	0	0
										" Depreciation of Furniture .	10	0	0	10	0	0	10	0	0
										" Depreciation of Machy. .	67	0	0	67	0	0	67	0	0
										" Income Tax, Sch. A . . .	8	0	0	8	0	0	8	0	0
										" Income Tax, Sch. D . . .	42	0	0	40	0	0	43	0	0
	1094	0	0	1195	0	0	1154	0	0		1094	0	0	1195	0	0	1154	0	0

By Assessable Profits b/d	818 0 0	919 0 0	878 0 0
	919 0 0		
	878 0 0		

3)2615 0 0

Profit for 1910-11 Assessment	£871 18 4
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E. Brown would claim a deduction from the above sum for wear and tear of machinery. No depreciation is allowed on furniture or buildings.

The net annual value of business premises being £136, and as E. Brown is the owner, he is entitled to charge that amount against profits.

Bank interest on deposits is usually credited by the Bank in full, and tax thereon must therefore be paid by the recipient.

Bank charges and interest on overdraft is, however, allowed

as a deduction for the reason that the tax thereon is paid by the Bank.

Q. Assuming that E. Brown has no other source of income, what further Income Tax will he be called upon to pay, ignoring the question of an allowance for wear and tear of machinery?

A. The amount of tax for which E. Brown is liable would be arrived at as follows :—

	£	s.	d.
Average profits as per statement	871	13	4
Deduct—			
Proportion thereof upon which tax is payable at the higher rate, viz.—			
(a) Interest paid on Loans from which tax has been de- ducted by E. Brown	£	s.	d.
	12	0	0
(b) Interest received in respect of Deposit at Bank from which tax has not been deducted	52	0	0
	<hr/>		
		64	0
			0
	<hr/>		
	£807	13	4

E. Brown will, therefore, be called upon to pay further Income Tax on £807 13s. 4d. at 9d., and on £64 at 1s. 2d. in the £ = £33 18s. 5d. In addition, he will have paid tax under Schedule A on £136 in respect of his business premises, and under Schedule C in respect of the dividends £130, and Interest on Loans £10, received less tax.

Q. In preparing the accounts of a firm, should Income Tax be charged to the partners in the proportion in which profits and losses are shared?

A. As a rule an adjustment of Income Tax is necessary in the case of partners, for the reason that each partner's share of the assessable profits may not correspond with his proportion of the divisible profits. The adjustment is effected as follows :—

1. Find the average assessable profits of the firm.
2. Deduct therefrom the average amount of all (a) interest on capital, and (b) partners' salaries during the three years covered by the return.
3. Divide the balance amongst the partners in the proportions in which profits and losses are shared.
4. Add to each partner's share the average amount of interest on capital and salary received by him during the three years.

5. The result will give the amount of each partner's share of the assessable profits, the tax upon which should be charged to the separate accounts of each partner.

A., B., and C. are equal partners, and their Profit and Loss Accounts for the years 1907, 1908, and 1909 are as under—

PROFIT AND LOSS ACCOUNTS OF A., B., AND C.

DR.

CR.

	1907.			1908.			1909.				1907.			1908.			1909.		
	£	s.	d.	£	s.	d.	£	s.	d.		£	s.	d.	£	s.	d.	£	s.	d.
To Salaries	320	0	0	310	0	0	300	0	0	By Gross Profit	2260	0	0	2420	0	0	2370	0	0
„ Trade Expenses	40	0	0	35	0	0	31	0	0	„ Dividends received free of Tax	300	0	0	300	0	0	300	0	0
„ Rent	85	0	0	85	0	0	85	0	0	„ Profits on Stock Exchange Operations	—	—	—	420	0	0	130	0	0
„ Bank Charges and Interest	12	0	0	11	0	0	10	0	0										
„ Bad Debts	30	0	0	42	0	0	19	0	0										
„ Depreciation of Furniture	10	0	0	10	0	0	10	0	0										
„ Partners' Salaries—																			
A.	190	0	0	190	0	0	220	0	0										
B.	130	0	0	130	0	0	190	0	0										
C.	145	0	0	145	0	0	160	0	0										
„ Interest on Capital—																			
A.	300	0	0	320	0	0	340	0	0										
B.	220	0	0	230	0	0	240	0	0										
C.	180	0	0	200	0	0	160	0	0										
„ Net Profit	898	0	0	1432	0	0	1035	0	0										
	2560	0	0	3140	0	0	2800	0	0		2560	0	0	3140	0	0	2800	0	0

Prepare a statement of profits for the firm's assessment for the year 1910-11; also a statement of the proportion of tax chargeable to each partner.

2

A.—

STATEMENT OF PROFITS OF A., B., AND C. FOR ASSESSMENT UNDER
SCHEDULE D FOR THE YEAR 1910-11.

DR.												CR.																													
1907.												1908.												1909.																	
1907.												1908.												1909.																	
£ s. d.												£ s. d.												£ s. d.																	
To Dividends already taxed .												300	0	0	300 0 0												300	0	0	300 0 0											
„ Casual Profits .												—	—	—	420 0 0												130	0	0	130 0 0											
„ Assessable Profits .												1773	0	0	1937 0 0												1925	0	0	1925 0 0											
												2073	0	0	2657 0 0												2355	0	0	2355 0 0											

By Assessable Profit b/d 1773 0 0 1937 0 0 1925 0 0
 1937 0 0
 1925 0 0

3) 5635 0 0

Firm's Profit for 1910-11 Assessment £ 1878 6 8

STATEMENT SHOWING PROPORTION OF INCOME TAX
CHARGEABLE TO EACH PARTNER.

	£	s.	d.
Assessable Profit as above	1878	6	8
Deduct averages of—			
Partners' Salaries for three years .	£500		
Interest on Capital „ „ „ .	£730		
	<u> </u>	1230	0 0
		<u>648</u>	<u>6 8</u>

	A.			B.			C.		
	£	s.	d.	£	s.	d.	£	s.	d.
To one-third Share of £648 6s. 8d.	216	2	8	216	2	8	216	2	2
„ three years' average amount of Salary	200	0	0	150	0	0	150	0	0
„ „ „ „ „ Int. on Capital	320	0	0	280	0	0	180	0	0
Amounts upon which tax is chargeable to each partner.	736	2	8	596	2	8	546	2	2

						£	s.	d.
A. will therefore be charged with tax on . . . . .	.	.	.	.	.	736	2	8
C. „ „ „ „ „ „ . . . . .	.	.	.	.	.	596	2	8
D. „ „ „ „ „ „ . . . . .	.	.	.	.	.	546	2	2
Total Assessable Profits as above . . . . .	.	.	.	.	.	1878	6	8

Q. Have partners the right to be assessed separately?

A. Yes; as Income Tax is an individual tax, each partner may claim to be assessed separately.

Q. When a person's income is partly earned and partly unearned, from which portion should the abatement (if any) be deducted?

A. The abatement must be deducted from the earned portion, but if that is not sufficient to allow for the deduction the balance of the abatement should be deducted from the unearned portion.

Q. When would separate assessments be necessary?

A. Separate assessments would be necessary whenever a partner's actual share of profits is such as to entitle him to exemption, abatement, or relief in respect of earned income; or when a partner desires to set off a loss incurred in one business against a profit made in another.

A. Wilson is in partnership, and his proportion of the assessable profits is £250. He owns a house which is assessed under Schedule A at £32 per annum net. There is a mortgage on the house of £200 at 4½ per cent. interest. A. Wilson is insured in a British Life Office for £500, the annual premiums amounting to £16. He has some small investments from which he receives £47 1s. 8d. per annum net. Prepare A. Wilson's claim for abatement.

A. WILSON.—STATEMENT OF CLAIM TO ABATEMENT.

	Earned Income.			Unearned Income.		
	£	s.	d.	£	s.	d.
<i>Income already taxed—</i>						
Schedule A, House Property				32	0	0
Schedule C, Investments				50	0	0
Total				82	0	0
Profits from Partnership	250	0	0			
	250	0	0	82	0	0
<i>Less Fixed Charge—</i>						
Interest on Mortgage				9	0	0
Total Income for Fixing Abatement	250	0	0	73	0	0
Less Abatement	160	0	0			
	90	0	0	73	0	0
<i>Less Life Insurance Premiums</i>	16	0	0			
	74	0	0	73	0	0
Add Fixed Charges				9	0	0
	74	0	0	82	0	0
Less Income already taxed				82	0	0
Amount upon which Tax is payable at the lower rate of 9d.	74	0	0			

Q. In preparing the above claim, why are fixed charges deducted and then added?

A. The fixed charges, whether on earned or unearned income, are first deducted in order to arrive at the total income for the purpose of ascertaining the abatement. As the claimant will have deducted tax at the higher rate on the fixed charges, the total amount thereof must be *added* to the unearned income for the purpose of showing the amount upon which tax is payable.

Q. In preparing a return of profits for assessment under Schedule D, how should the following items be dealt with?—

- (a) *Rent paid.*
- (b) *Annual value of premises owned by the trader.*
- (c) *Rent of premises partly used for business and partly for household accommodation.*

- (d) *Life assurance premiums.*
- (e) *Depreciation of machinery.*

A. The items should be dealt with as follows :—

- (a) Rent paid by a tenant for premises exclusively used in trade is allowed as a charge against profits. The amount would therefore not be added to the net profits for the purposes of the return.
- (b) The owner of premises used for trading purposes is allowed to charge against the profits the net annual value of the premises as assessed under Schedule A, which should therefore be deducted from the average net profits shown by the Profit and Loss Accounts.
- (c) Not more than two-thirds of the rent paid in respect of premises partly used for business and partly for household accommodation can be deducted in arriving at the profits for Income Tax assessment. Therefore, in making out the return, the whole amount of rent paid should be added to the net profits shown by the Profit and Loss Accounts, and the amount allowed by the Surveyor or Commissioners will afterwards be deducted.
- (d) Life assurance premiums on the life of the taxpayer or that of his wife may be deducted from the amount upon which tax is found to be payable, not exceeding one-sixth of the total income. The amount is deducted after the abatement has been determined. The premiums must be paid to a British office, or to a Company having a branch in Great Britain.
- (e) The amount of depreciation charged in the Profit and Loss Account is not allowed as a deduction in arriving at the profits for Income Tax assessment, and must therefore be added to the net profit shown by the Profit and Loss Accounts. A separate claim should, however, be made for an allowance for wear and tear of machinery, and the amount allowed should be deducted from the average assessable profits.

Q. How is the income of a married woman treated for Income Tax assessment purposes ?

A. The income of a married woman living with her husband is deemed to be the husband's statutory income, but where the joint income does not exceed £500 and includes earnings of

the wife from employment not connected with her husband's business, such earnings are deemed to be her separate income.

Q. A. B. is in business, from which he derives an income of £220. He pays life assurance premiums £25. His wife has a separate income derived from investments amounting to £200 per annum gross. What amount of Income Tax will Mr. and Mrs. A. B. pay?

A. As Mrs. A. B.'s income is unearned, it is deemed to be part of her husband's income. He will therefore pay tax as under—

	£	s.	d.
Earned Income	220	0	0
Unearned Income	200	0	0
Total Income	420	0	0
Less Abatement	150	0	0
	270	0	0
Less Life Assurance Premiums	25	0	0
	245	0	0
	£	s.	d.
£200 of this, being unearned, is subject to a tax of 1s. 2d. =	11	13	4
45 " " earned " " 9d. =	1	13	9
Total tax payable	13	7	1

The £11 13s. 4d. will be paid by deduction at the sources of income, and the £1 13s. 9d. will be paid by A. B. direct.

Q. X., a clerk, earns a salary of £250 per annum, and his wife, a school teacher, earns a salary of £180 per annum. What amount of Income Tax will be payable by X. and his wife?

A. The joint income not being in excess of £500, and the income in each case being separately earned, X. and his wife are entitled to be assessed separately.

Therefore X. will pay on £250 less abatement of £160 = £90
and his wife will pay on £180 less abatement of £160 = £20

Total . . . £110 at 9d. = £4 2s. 6d.

Q. Assuming that X.'s salary is £350, and his wife's £180, what amount of tax would he then have to pay?

A. The joint income would then exceed £500, and the whole amount would be deemed to be X.'s income. He would therefore pay on £530 less abatement of £120 = £410 at 9d. = £15 7s. 6d.

Q. In preparing a return of profits for assessment of a Joint Stock Company, how should directors' fees be treated?

A. Directors' fees are part of the expenses of carrying on the Company's business, and are consequently allowed as a charge against profits. In preparing the Company's return, the directors' fees should not, therefore, be added to the net profits. The tax on directors' fees is, however, frequently deducted before payment, and the Company then becomes liable to the Inland Revenue for the amount so deducted.

Q. What rate of tax does a Limited Company pay on its profits?

A. The rate paid by Limited Companies is 1s. 2d. in the £, irrespective of the sources of profits or the schedules under which the tax is payable.

Q. What rate of tax does a director pay?

A. The fees of a director are regarded as earned income, and are subject to payment or deduction at the rate of 9d., unless the income of the director exceeds £2000. The tax on a Company's profits and the tax on directors' fees are two distinct matters, and should be treated separately.

CHAPTER XXXVI.

Branch Accounts—Where transactions are recorded at head office—Where branches keep their own books—Different methods of incorporating branch figures in head office books—Monthly Approximate Stock Accounts—Retail Branch Accounts—Goods charged at selling price—Form of combined Trading and Profit and Loss Accounts and Balance-Sheet for branches and head office—Elimination from general Balance-Sheet of outstanding balances between branches.

Q. What are Branch Accounts?

A. Branch Accounts are accounts recording the transactions of different branches of the same business. The system of book-keeping varies according to the special circumstances of each business. There are, however, four distinct classes of branches, viz.—

1. Branches where all transactions are recorded at the head office.
2. Branches which keep their own records of transactions.
3. Retail branches.
4. Foreign branches.

Outline a system of Branch Accounts where all branch transactions are recorded at the head office.

A. In these circumstances each branch may be regarded as a department of the principal establishment, and the Branch Accounts will be kept on the departmental system. The head office will keep an account in the General Ledger for each branch, to which will be debited the cost value of goods sent to the branch. Details of all branch transactions will be sent to the head office for entry in detail in the usual books of account. In such cases all accounts will be rendered and collected by the head office, the only cash received by the branches being in respect of cash sales, the amount of which will be remitted in full to the head office. The branch expenses will be paid out of cash supplied by the head office, and kept on the imprest system. The procedure at balancing period will

be similar to that adopted when dealing with Departmental Accounts.

Outline a system of Branch Accounts where all records of transactions are kept at the branches.

4. In these circumstances an account for each branch is kept in the General Ledger at the head office, and each branch is regarded as a debtor for all stock, book debts, fixtures, etc., at the branch, and as a creditor for the total amount due to the branch creditors. All goods supplied or cash remitted to the branches will be debited to the Branch Accounts and credited to a Goods Sent to Branches Account and Cash Account. Goods sent to branches should be recorded in a special Day Book. All branch remittances, returns, allowances, etc., will be credited to the Branch Accounts, and debited to Cash, Returns, and Allowances Accounts. At the end of each period, each branch will send to the head office a Trial Balance, Profit and Loss Account and Balance-Sheet, which will be incorporated in the Head Office Accounts. This can be done in several ways, of which the following are two examples, viz. :—

First method.

1. Credit each Branch Account with the amount of stock, debtors, etc., less the amount of creditors at the branch.
2. Carry forward the net amount so credited to the debit side of the Branch Account for the next period.
3. The balance of the Branch Account will represent the profit at the branch, and will be transferred to the credit of the Profit and Loss Account at the Head Office.
4. In preparing a general Balance-Sheet of the business, add the stock, debtors, creditors, etc., at the branches to similar items at the head office, and omit the balances of the Branch Accounts.

Second method.

1. Debit the Branch Trading Account and Credit Branch Account with the branch stock at the commencement of the period.
2. Debit Branch Trading Account and credit Branch Account with the amount of goods sent to branch during the period.
3. Debit Branch Account and credit Branch Trading Account with amount of branch sales.
4. Debit Branch Account and credit Branch Trading Account with branch stock at end of period.

BRANCH ACCOUNTS

5. Debit Branch Profit and Loss Account and credit Branch Account with all items on debit side of Branch Profit and Loss Account.
6. Debit Branch Account and carry forward to the next period the amount of creditors at branch.
7. Credit Branch Account and carry forward to the next period amounts of stock and debtors at branch.
8. The Branch Account for the current period will balance, and may be ruled off.

The first of these methods is the simpler, and is applicable to most cases.

The object of the second method is to incorporate the Trading and Profit and Loss Accounts for each branch in the Head Office Ledger.

The following is the X. Branch Account in the Head Office Ledger :—

DR.		X. BRANCH ACCOUNT.						CR.		
1909.	£	£	s.	d.	1909.			£	s.	d.
Jan. 1	Debtors . 700				Dec. 31	By	Remit-	3720	0	0
	Stock . 400					ances				
		1100	0	0						
Dec. 31	Goods . .	3400	0	0						

At the end of this period the branch forwards to the Head Office the following Trial Balance Profit and Loss Account, and Balance-Sheet :—

X. BRANCH TRIAL BALANCE.

	£	s.	d.	£	s.	d.
Stock, January 1, 1909	400	0	0			
Head Office Account, Balance				780	0	0
Debtors	680	0	0			
Goods from Head Office	3400	0	0			
Sales				4050	0	0
Salaries	280	0	0			
Rent, Rates, etc.	64	0	0			
Trade Expenses	36	0	0			
Creditors for Rent, etc.				30	0	0
	4860	0	0	4860	0	0

X. BRANCH TRADING AND PROFIT AND LOSS ACCOUNT,

Dr.		Dec. 31, 1909.			Cr.				
1909.		£	s.	d.	1909.		£	s.	d.
Jan. 1	To Stock	400	0	0	Dec. 31	By Sales	4050	0	0
Dec. 31	„ Goods from H. O.	3400	0	0		„ Stock	530	0	0
„	„ Gross Profit carried down	780	0	0					
		<u>4580</u>	<u>0</u>	<u>0</u>			<u>4580</u>	<u>0</u>	<u>0</u>
1909.					1909.				
Dec. 31	To Salaries	280	0	0	Dec. 31	By Gross Profit brought down	780	0	0
„	„ Rent, Rates, etc.	64	0	0					
„	„ Trade Expenses	36	0	0					
„	„ Net Profit to H. O. Account	400	0	0					
		<u>780</u>	<u>0</u>	<u>0</u>			<u>780</u>	<u>0</u>	<u>0</u>

Dr. X. BRANCH BALANCE-SHEET, Dec. 31, 1909. Cr.

	£	s.	d.		£	s.	d.
To Creditors	30	0	0	By Debtors	680	0	0
„ Head Office	1180	0	0	„ Stock	530	0	0
	<u>1210</u>	<u>0</u>	<u>0</u>		<u>1210</u>	<u>0</u>	<u>0</u>

Give the Journal entries necessary to adjust the Branch Account in the Head Office Ledger, and show the account as it will appear after adjustment, using both first and second methods described above.

A. First method.

HEAD OFFICE JOURNAL.

		£	s.	d.	£	s.	d.
1909.							
Dec. 31	Sundries Dr.						
	To X. Branch Account				1210	0	0
	Sundry Debtors	680	0	0			
	Stock	530	0	0			
	For Sundry Branch Debtors and Stock on hand at this date.						
"	X. Branch Account Dr.	30	0	0			
	To Sundry Creditors				30	0	0
	For Sundry Branch Creditors at this date.						
"	X. Branch Account Dr.	400	0	0			
	To Profit and Loss Account . .				400	0	0
	For Balance transferred.						

HEAD OFFICE LEDGER.

DR.

X. BRANCH ACCOUNT.

CR.

	£	£	s.	d.		£	s.	d.
1909.					1909.			
Jan. 1	To Debtors 700				Dec. 31	By Remittances	3720	0 0
"	" Stock . 400				"	" Debtors . c/d	680	0 0
		1100	0	0	"	" Stock . c/d	530	0 0
Dec. 31	" Goods .	3400	0	0	"			
"	" Creditors . c/d	30	0	0				
"	" Profit and Loss .	400	0	0				
		4930	0	0			4930	0 0
1910.					1910.			
Jan. 1	To Debtors b/d	680	0	0	Jan. 1.	By Creditors . c/d	30	0 0
"	" Stock b/d	530	0	0				

BRANCH ACCOUNTS

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Second method.

JOURNAL.

1909.		£	s.	d.	£	s.	d.
Dec. 31	Branch Trading Account . . . Dr.	3800	0	0			
	To X. Branch Account . . .				3800	0	0
	For Stock Jan. 1, 1909, £400, and Goods from H. O. £3400, transferred.						
"	X. Branch Account . . . Dr.	4580	0	0			
	To Branch Trading Account . . .				4580	0	0
	For Branch Sales, £4050, trans- ferred, and Stock at Branch, £580, at this date.						
"	Branch Profit and Loss Account Dr.	380	0	0			
	To X. Branch Account . . .				380	0	0
	For Branch Expenses transferred, viz.—						
	Salaries, £280						
	Rent, Rates, etc., £64						
	Trade Expenses, £36						
"	X. Branch Account . . . Dr.	30	0	0			
	To Sundry Creditors				30	0	0
	For Branch Creditors at this date.						
"	Sundries Dr.						
	To X. Branch Account				1210	0	0
	Sundry Debtors	680	0	0			
	Stock	580	0	0			
	For branch Debtors and Stock at this date.						

HEAD OFFICE LEDGER.

X. BRANCH ACCOUNT.

Dr.		£	s.	d.	Cr.		£	s.	d.
1909.		£			1909.		£		
Jan. 1	To Debtors 700				Dec. 31	By Remittances	3720	0	0
"	" Stock 400				"	" Branch Tra- ding Ac- count, viz.—			
		1100	0	0	"	Stock, Jan. 1	400	0	0
Dec. 31	" Goods	3400	0	0	"	" Goods from H. O.	3400	0	0
"	" Branch Tra- ding Ac- count Sales	4050	0	0	"	" Branch P. & L. Account, viz.—			
"	" Stock	580	0	0	"	" Salaries	280	0	0
"	" Sundry Creditors c/f	30	0	0	"	" Rent, Rates, etc.	64	0	0
					"	" Trade Ex- penses	36	0	0
					"	" Sundry Debtors c/f	680	0	0
					"	" Stock c/f	580	0	0
		9110	0	0			9110	0	0
1910.									
Jan. 1	To Debtors b/f	680	0	0		By Creditors b/f	30	0	0
	" Stock b/f	580	0	0					

D.A.B.

T

Q. When goods are charged to branches at cost price, by what means can a check be exercised over the accuracy of the stock at the branches?

A. In all systems of Branch Accounts it is important to have a means of checking the accuracy of stock. When goods are charged at cost price, a check is obtained by means of Approximate Stock Accounts prepared at frequent intervals. To prepare such accounts the percentage of gross profit on sales must be first ascertained by calculations based upon the actual results during a period of, say, two or three years. The percentage of profit being deducted from sales shows the cost price of goods sold, which, when deducted from the previous stock added to the purchases, gives the approximate value of stock on hand.

The following is a form of account for the purpose:—

BRANCH X. APPROXIMATE MONTHLY STOCK ACCOUNT.

	January.			February.			March.		
	£	s.	d.	£	s.	d.	£	s.	d.
Commencing Stock	2850	0	0	3650	0	0	4150	0	0
Purchases	3400	0	0	2700	0	0	3750	0	0
	6250	0	0	6350	0	0	7900	0	0
Deduct Sales	3900	0	0	3300	0	0	3600	0	0
	2350	0	0	3050	0	0	4300	0	0
Add 33½ % being Gross Profit on Sales	1300	0	0	1100	0	0	1200	0	0
Approximate Stock at end of month .	3650	0	0	4150	0	0	5500	0	0

Outline a system of accounts for retail branches where all goods are charged at the selling price, and no credit sales take place at the branches.

A. The Head Office will enter particulars of all goods sent to branches in specially ruled Day Books, debiting each Branch Account with the selling price, and crediting a Goods Sent to Branches Account. All branch expenses will be paid by remittances from the head office, Branch Nominal Accounts being debited therewith. All cash received from the branches in respect of sales will be credited to the Branch Accounts and debited to Cash.

At balancing-time the balances of the Branch Accounts should represent the selling price of stock at the branches, which will be carried down to the debit of next period's account. Any small allowances or discrepancies will be credited to the

Branch Accounts and debited to Goods Sent to Branches Account. The latter account will now be debited with selling price of branch stock, which will be carried forward as a credit for the next period's account. The balance of the account will be transferred to the credit of Sales Account.

In the Trading Account and Balance-Sheet stock at the branches will be taken at cost price, General Stock Account being debited and Trading Account credited, the balances on Branch Accounts and Goods to Branches Account being omitted from the Balance-Sheet.

The following are examples of the Branch Account and Goods to Branches Account:—

Dr.		BRANCH ACCOUNT.				Cr.			
1910.		£	s.	d.	1910.		£	s.	d.
Jan. 1	To Balance .	700	0	0	June 30	By Cash .	1780	0	0
June 30	„ Goods .	1830	0	0	„	„ Difference in Stock	50	0	0
					„	„ Balance c/f	730	0	0
		<u>2530</u>	<u>0</u>	<u>0</u>			<u>2530</u>	<u>0</u>	<u>0</u>
1910.									
June 30	To Balance b/f	730	0	0					

Dr.		GOODS TO BRANCHES ACCOUNT.				Cr.			
1910.		£	s.	d.	1910.		£	s.	d.
June 30	To Difference in Stock .	50	0	0	Jan. 1	By Balance .	700	0	0
	" Stock at Branch c/f	730	0	0	June 30	" Goods to Branch .	1830	0	0
	" Balance transferred to Sales Account.	1780	0	0					
		2530	0	0			2530	0	0
					1910.				
					June 30	By Balance . b/f	730	0	0

If sales on credit were permitted, an additional total account for branch debtors would be required.

Draft a pro forma combined Trading and Profit and Loss Account and Balance-Sheet for a head office and three branches.

Q. Where branches buy and sell from each other on credit, how should the balances outstanding be treated in a General Balance-Sheet?

A. Such balances, although properly shown in the Branch Balance-Sheets, will be eliminated from a General Balance-Sheet, as they do not represent actual liabilities or assets, but are in the nature of departmental debits and credit balances.

CHAPTER XXXVII.

Foreign branches—Fixed and fluctuating rates of exchange—Conversion of currency figures to sterling—Remittances in course of transit—Foreign mine accounts.

Outline a system of Foreign Branch Accounts.

A. Foreign Branch Accounts present special features owing to the fact that the head office transactions are in sterling and the branch transactions take place in currency, and considerable differences between the Branch and Head Office Accounts may arise owing to fluctuations in the rate of exchange between the two countries.

Sometimes these fluctuations are so slight that they can be ignored, except in the case of remittances to and from the branches. All other items in the accounts received from the branch will, from time to time, be brought into the head office books at a fixed rate of exchange.

At balancing time the branch will send its accounts in currency to the head office, and the items other than remittances will be converted into sterling at the fixed rate of exchange, the difference in exchange on remittances being transferred to an Exchange Account.

The branch figures having thus been converted into sterling, they will be incorporated in the head office books by one of the usual methods.

Where the fluctuations are such as to render it inadvisable to work on a fixed rate of exchange, the items in the branch accounts are converted at varying rates, viz.—

1. Fixed assets at the rate ruling on the date of purchase, or, if the purchases extend over a period, at the average rate for the period.
2. Floating assets and liabilities at the rate ruling on the date of the Balance-Sheet.
3. Revenue balances at the average rate for the period.
4. Remittances at the actual rate at the time when the amounts are sent or received.

Any difference in the Branch Trial Balance after conversion into sterling will represent a profit or loss on exchange, and will be entered in Exchange Account.

Sometimes remittances are in course of transit at the date of a Balance-Sheet, in which case the amount thereof should be debited or credited to a Remittances in Transit Account, and the item will appear as such in the Balance-Sheet.

Outline a system of accounting for a foreign mine having its head office in London.

A. The books will be kept in the currency of the country in which the mine is situated, and will comprise—Wages Book, Cash Book, Journal, and Ledger. The book-keeper at the mine should send to the head office at the end of each month copies of the following books, etc. :—

Cash Book, with vouchers.

Journal.

Monthly Trial Balance.

The copies of Cash Book and Journal should be pasted in Guard Books, and posted each month to a Mine Ledger. The head office will thus have a continuous record of the mine accounts and transactions.

At balancing period the following documents should be sent to the head office in addition to the monthly accounts :—

1. Certificates of cash and bank balances and a copy of the Reconciliation Statement. In some cases it is advisable to obtain a certified copy of the Bank Account.
2. Certified lists of assets, at the mine, including stocks of ore, etc.
3. The mine manager's report on the condition and prospects of the mine.

In closing the books at the head office, the following entries will be necessary :—

All Revenue Accounts in the Mine Ledger will be closed by transfer to Head Office Account in the same Ledger. These transfers will be passed through the Mine Journal.

Entries will be made in the General Ledger, crediting Mine Account and debiting Revenue Accounts with all revenue expenditure at the mine.

The remaining balances in the Mine Ledger will be converted into sterling at appropriate rates of exchange, and incorporated in the Head Office Accounts.

CHAPTER XXXVIII.

Royalties—Dead rents—How recorded in books—Example showing Journal and Ledger entries—Short workings—How shown in Balance-Sheet.

Q. What is a royalty?

A. A royalty is an amount payable by one person for some special right or privilege conceded to him by another person—*e.g.* the right to work a mine, or to manufacture and sell a patented article, or to produce and publish a book. Royalties are usually based upon a fixed sum per unit of output.

Q. What is meant by the term "dead rent"?

A. Dead rent is the minimum rent per annum payable by the lessee of a mine for the privilege of obtaining minerals therefrom. A dead rent usually merges into a royalty of a fixed amount per ton of minerals raised.

Q. How are royalties and dead rents recorded in the books of account?

A. (1) Where the royalties are less in amount than the dead rent, but the difference—*i.e.* short workings—is recoverable out of future royalties when the latter reach a sum greater than the dead rent, the following entries are made:—

1. Debit Dead Rent Account and credit Landlord's Account with the amount of dead rent.
2. Debit Royalties Account and credit Dead Rent Account with the amount of royalties.
3. Debit Profit and Loss and credit Royalties Account with the amount of royalties.
4. Debit Short Workings Account and credit Dead Rent Account with the difference between the amount of dead rent and the amount of royalties.

(2) Where the royalties exceed the dead rent, the entries will be as follows:—

Debit Royalties Account and credit Landlord's Account with the amount of royalties.

Debit Profit and Loss and credit Royalties Account to close the latter.

Debit Landlord's Account and credit Short Workings Account with the balance thereof, provided the amount does not exceed the surplus of royalties over dead rent.

Q. What are Short Workings?

A. Short Workings are the amounts paid to the landlord of a mine in excess of the amount of royalties earned on the minerals produced. Short Workings are generally recoverable out of royalties earned in excess of the dead rent during a given period from the commencement of the lease.

Q. How should the balance of Short Workings Account be dealt with when preparing the final accounts?

A. So long as there is a reasonable prospect of the amount of short workings being recouped out of future royalties, such amount may be shown in full on the Cr. (or assets) side of the Balance-Sheet. If, however, the prospect is doubtful, a reserve should be made to provide for the loss which may arise.

X. leased a colliery. The dead rent was £500 a year, merging into a royalty of 6d. per ton of coal raised, with the right to recover short workings out of royalties during the first five years. The quantities raised were: first year, 10,000 tons; second year, 15,000 tons; third year, 25,000 tons; fourth year, 40,000 tons; and fifth year, 60,000 tons. Give the Journal and Ledger entries for each of the five years.

A.—

JOURNAL

<i>First Year—</i>					£	s.	d.	£	s.	d.
Dead Rent	.	.	.	Dr.	500	0	0	500	0	0
To Landlord	.	.	.	.		
Royalties	.	.	.	Dr.	250	0	0			
To Dead Rent	.	.	.	.				250	0	0
Profit and Loss	.	.	.	Dr.	250	0	0			
To Royalties	.	.	.	.				250	0	0
Short Workings	.	.	.	Dr.	250	0	0			
To Dead Rent	.	.	.	.				250	0	0
Landlord	.	.	.	Dr.	500	0	0			
To Cash	.	.	.	.				500	0	0
<i>Second Year—</i>										
Dead Rent	.	.	.	Dr.	500	0	0			
To Landlord	.	.	.	.				500	0	0
Royalties	.	.	.	Dr.	375	0	0			
To Dead Rent	.	.	.	.				375	0	0
Profit and Loss	.	.	.	Dr.	375	0	0			
To Royalties	.	.	.	.				375	0	0
Short Workings	.	.	.	Dr.	125	0	0			
To Dead Rent	.	.	.	.				125	0	0
Landlord	.	.	.	Dr.	500	0	0			
To Cash	.	.	.	.				500	0	0
<i>Third Year—</i>										
Royalties	.	.	.	Dr.	625	0	0			
To Landlord	.	.	.	.				625	0	0
Profit and Loss	.	.	.	Dr.	625	0	0			
To Royalties	.	.	.	.				625	0	0
Landlord	.	.	.	Dr.	625	0	0			
To Sundries	.	.	.	.		
Short Workings	.	.	.	.				125	0	0
Cash	.	.	.	.				500	0	0
<i>Fourth Year—</i>										
Royalties	.	.	.	Dr.	1000	0	0			
To Landlord	.	.	.	.				1000	0	0
Profit and Loss	.	.	.	Dr.	1000	0	0			
To Royalties	.	.	.	.				1000	0	0
Landlord	.	.	.	Dr.						
To Sundries	.	.	.	.	1000	0	0			
Short Workings	.	.	.	.				250	0	0
Cash	.	.	.	.				750	0	0
<i>Fifth Year—</i>										
Royalties	.	.	.	Dr.	1500	0	0			
To Landlord	.	.	.	.				1500	0	0
Profit and Loss	.	.	.	Dr.	1500	0	0			
To Royalties	.	.	.	.				1500	0	0
Landlord	.	.	.	Dr.	1500	0	0			
To Cash	.	.	.	.				1500	0	0

LEDGER.

Dr.		LANDLORD'S ACCOUNT.			Cr.				
		£	s.	d.		£	s.	d.	
1st year	To Cash . . .	500	0	0	1st year	By Dead Rent	500	0	0
2nd year	To Cash . . .	500	0	0	2nd year	By Dead Rent	500	0	0
3rd year	To Short Workings	125	0	0	3rd year	By Royalties	625	0	0
	„ Cash . . .	500	0	0					
		625	0	0			625	0	0
4th year	To Short Workings	250	0	0	4th year	By Royalties	1000	0	0
	„ Cash . . .	750	0	0					
		1000	0	0			1000	0	0
5th year	To Cash . . .	1500	0	0	5th year	By Royalties	1500	0	0

Dr.		DEAD RENT ACCOUNT.				Cr.			
		£	s.	d.		£	s.	d.	
1st year	To Landlord .	500	0	0	1st year	By Royalties .	250	0	0
						„ Short			
						Workings	250	0	0
		<u>500</u>	<u>0</u>	<u>0</u>			<u>500</u>	<u>0</u>	<u>0</u>
2nd year	To Landlord .	500	0	0	2nd year	By Royalties .	375	0	0
						„ Short			
						Workings	125	0	0
		<u>500</u>	<u>0</u>	<u>0</u>			<u>500</u>	<u>0</u>	<u>0</u>

SHORT WORKINGS

DR.		SHORT WORKINGS ACCOUNT.				CR.			
		£	s.	d.		£	s.	d.	
1st year	To Dead Rent	250	0	0	2nd year	By Balance	375	0	0
2nd year	" do.	125	0	0					
		375	0	0			375	0	0
2nd year	To Balance	375	0	0	3rd year	By Landlord	125	0	0
						" Balance	250	0	0
		375	0	0			375	0	0
3rd year	To Balance	250	0	0	4th year	By Landlord	250	0	0

DR.		ROYALTIES ACCOUNT.				CR.		
		£	s.	d.		£	s.	d.
1st year	To Dead Rent	250	0	0	1st year	By Profit and Loss	250	0 0
2nd year	To ditto .	375	0	0	2nd year	By ditto .	375	0 0
3rd year	To Landlord .	625	0	0	3rd year	By ditto .	625	0 0
4th year	To ditto .	1000	0	0	4th year	By ditto .	1000	0 0
5th year	To ditto .	1500	0	0	5th year	By ditto .	1500	0 0

CHAPTER XXXIX.

Hire-purchase transactions—How recorded in books of purchaser and vendor—Purchases on agreements to pay by instalments—How recorded—Goods on sale or return.

Q. What is meant by the hire-purchase system of selling goods?

A. The hire-purchase system is a system by which goods are delivered to a person who agrees to pay the owner certain sums at stated periods, such sums to be treated as payment for the hire of the goods until a certain amount has been paid, when the goods become the property of the hirer.

Under the hire-purchase system the total amount to be paid includes the cash price of the goods and interest during the period in which the periodical payments are to be made.

Q. How are goods bought on the hire-purchase system recorded in the books of the purchaser?

A. No entry is made until an instalment becomes due. As each payment becomes due, the purchaser ascertains what proportion thereof represents interest, and what proportion represents part of the cash price, and makes the following entries:—

JOURNAL.

		£	s.	d.	£	s.	d.
Sundries Dr.							
To Vendor							
Asset Account							
Interest (or Cost of Hire) Account .							

By this means the Asset Account is debited with the actual amount paid on account of the cash price of the goods, and a Nominal Account is debited with interest.

At balancing-time depreciation calculated on the total value

of the asset will be charged to Profit and Loss, so that when the last payment has been made the asset will appear in the books at its then value.

On Jan. 1, 1907, the X. Colliery Company hired wagons on the hire-purchase system. The cash price of the wagons is £745, and payment is to be made as follows: £200 down, and the balance in three instalments of £200 each at the end of each year. The Wagon Company charges interest at 5 per cent. per annum. Make the entries in the books of the Colliery Company to record the transaction.

A.—

JOURNAL.

		£	s.	d.	£	s.	d.
1907. Jan. 1	Wagon Account Dr. To Vendors For first payment on delivery of the Wagons.	200	0	0	200	0	0
1907. Dec. 31	Sundries Dr. To Vendors Wagon Account Interest	172	15	0	200	0	0
		27	5	0			
1908. Dec. 31	Sundries Dr. To Vendors Wagon Account Interest	181	7	9	200	0	0
		18	12	3			
1909. Jan. 1	Sundries Dr. To Vendors Wagon Account Interest	190	17	3	200	0	0
		9	2	9			

Dr.

INTEREST ACCOUNT.

Cr.

		£	s.	d.			£	s.	d.
1907. Dec. 31	To Vendors	27	5	0	1907. Dec. 31	By Profit and Loss	27	5	0
1908. Dec. 31	Ditto	18	12	3	1908. Dec. 31	Ditto	18	12	3
1909. Dec. 31	Ditto	9	2	9	1909. Dec. 31	Ditto	9	2	9

LEDGER.

Dr.		WAGON ACCOUNT.			Cr.				
1907.		£	s.	d.	1907.	£	s.	d.	
Jan. 1	To Vendors .	200	0	0	Dec. 31	By Deprecia-			
Dec. 31	" ditto .	172	15	0	"	tion at 10%	80	0	0
						on £800 .			
					"	Balance	292	15	0
						down .			
		372	15	0			372	15	0
1908.					1908.				
Jan. 1	To Balance				Dec. 31	By Deprecia-			
	down .	292	15	0	"	tion at 10%	72	0	0
Dec. 31	" Vendors .	181	7	9		on £720 .			
					"	Balance	402	2	9
						down .			
		474	2	9			474	2	9
1909.					1909.				
Jan. 1	To Balance				Dec. 31	By Deprecia-			
	down .	402	2	9	"	tion at 10%	63	0	0
Dec. 31	" Vendors .	190	17	3		on £628 .			
					"	Balance	590	0	0
						down .			
		593	0	0			593	0	0
1910.									
Jan. 1	To Balance								
	down .	590	0	0					

Q. How would the above transaction be recorded in the books of the vendor Company?

A. The vendor Company will debit the Colliery Company with the cash price of the wagons. As each instalment becomes due, interest will be charged on the balance of the account, the amount of the instalment when received will be credited, and the balance brought down. In this way the vendor Company takes credit in its accounts for the ordinary selling price of the goods, and the accounts for each year receive credit for proper proportion of interest on the outstanding balances.

PAYMENT BY INSTALMENTS

LEDGER.

DR.

X. COLLIERY COMPANY.

CR.

		£	s.	d.			£ s. d.
1907.					1907.		
Jan. 1	To Sales . . .	745	0	0	Jan. 1	By Cash . . .	200 0 0
Dec. 31	„ Int. at 5 % on £545 . . .	27	5	0	Dec. 31	„ ditto . . .	200 0 0
						„ Balance down . . .	372 5 0
		772	5	0			772 5 0
1908.					1908.		
Jan. 1	To Balance down . . .	372	5	0	Dec. 31	By Cash . . .	200 0 0
Dec. 31	„ Interest . .	18	12	3		„ Balance down . . .	190 17 3
		390	17	3			390 17 3
1909.					1909.		
Jan. 1	To Balance down . . .	190	17	3	Dec. 31	By Cash . . .	200 0 0
Dec. 31	„ Interest . .	9	2	9			
		200	0	0			200 0 0

Q. What is the distinction between a purchase of goods on a hire-purchase agreement and a purchase of goods on an agreement to pay by instalments?

A. Under the hire-purchase system the goods do not become the property of the purchaser until the final instalment has been paid, but under an agreement to purchase and pay by instalments the goods become the property of the purchaser as soon as they are delivered.

Q. How are goods purchased on an agreement for payment by instalments recorded in the books of the purchaser?

A. The total amount to be paid for the goods will include the cash price and interest on the outstanding balances from time to time. When the agreement has been signed and the goods delivered, the purchaser should make a Journal entry, crediting the vendor with the total amount of the instalments to be paid, and debiting the Asset Account with the cash price, and Interest Suspense Account with the total amount of interest. As each instalment is paid, the Vendor's Account will be debited, and Cash Account credited. At the end of each year the proportion of interest included in the instalments for the year will

290 GOODS SENT ON SALE OR RETURN

The total of Goods Sold and Returned, deducted from the total of Goods Sent Out, will give the selling or invoice price of Goods Outstanding on Sale or Return. When preparing a Balance-Sheet, these should be taken into stock at cost price.

Where such transactions are numerous and the sums involved are large, it is often advisable to keep a separate set of books, viz. a Sale or Return Day Book, Journal, and Ledger. All goods sent out will be entered in the Sale or Return Day Book, and posted in detail to the debit of personal accounts opened in the Sale or Return Ledger, the total being posted to the credit of a Goods Sent on Sale or Return Account in the same Ledger.

When a sale takes place the amount will be entered in the Sale or Return Journal, and posted to the debit of the customer's account in the ordinary Sales Ledger, and to the credit of his temporary account in the Sale or Return Ledger, the total sales being subsequently debited to Goods Sent on Sale or Return Account in the Sale or Return Ledger, and credited to Sales Account in the General Ledger. Any goods returned will be entered in the Sale or Return Journal, and posted to the credit of the personal accounts and to the debit of the Goods Sent on Sale or Return Account in the Sale or Return Ledger.

The Sale or Return Journal will require a special ruling, thus—

SALE OR RETURN JOURNAL.

Goods sold.				Goods returned.			
Date.	Name.	Sales Ledger Folio.	Amount.	Sale or Return Ledger Folio.	Date.	Name.	Amount.
			£ s. d.				£ s. d.
1	2	3	4	5	6	7	8

Sales are entered in columns 1, 2, and 4, and posted in detail to the debit of accounts in the Sales Ledger and to the credit of accounts in the Sale or Return Ledger, the total of column 4 being debited to Goods Sent on Sale or Return Account in the Sale or Return Ledger, and to the credit of Sales Account in the General Ledger.

Returns are entered in columns 6, 7, and 8, the details being posted to the credit of personal accounts in the Sale or Return Ledger, the total of column 8 being periodically debited to the Goods on Sale or Return Account, the balance of which on any given date will represent the invoice price of all goods outstanding on sale or return.

CHAPTER XL.

Cost Accounts—Definition—Objects—Principal items of cost—Direct and indirect expenses—Allocation of indirect expenses—Prime cost—Cost of production—Contract Accounts—Simple and departmental—Output or Single Cost Accounts—Working Cost Accounts—Factory Cost Accounts—Outline of Simple Contract Accounts where Cost Accounts form part of general book-keeping—Outline of Simple Contract Accounts where costing is separated from general book-keeping—Form of Cost Ledger—Form of Trading and Profit and Loss Account of a contractor—Form of Cost Sheet—Forms of Furnace and Trading Accounts—Cost of materials and output : how arrived at—Calculating percentages of gross profit, and selling price to produce a certain profit—Payment of wages : how to avoid irregularities.

Q. What are Cost Accounts ?

A. Cost Accounts are accounts specially compiled for the purpose of showing in a convenient form the various items of cost of working the whole or any part of undertakings engaged in the production or manufacture of commodities, or in the performance of any work involving the use of materials and the employment of manual labour.

Q. What are the objects aimed at in keeping Cost Accounts ?

A. The objects are—

1. To ascertain the actual cost of producing certain results by the combined use of materials and labour.
2. To furnish reliable information for fixing prices, supplying estimates, or submitting tenders.
3. To provide a means of checking and regulating the various items of cost, whether of materials, labour, or management.

Q. What are the principal items of cost ?

A. The principal items of cost are—

Materials.

Labour.

Direct expenses.

Indirect expenses.

Distinguish between direct and indirect expenses.

A. Direct expenses are expenses necessarily incurred in the performance of some part of the work in hand, e.g. the cost of carting materials for use on a particular contract.

Indirect expenses are expenses which form part of the total cost of production, but are not directly connected with the performance of any particular part of the work in hand.

Q. Upon what principles are indirect expenses allocated to each department or to each contract?

A. The principles upon which indirect expenses are allocated vary according to the nature of the work performed, and to the organization of the establishment. In the case of Contract Accounts there are two methods, viz.—

1. To charge each contract with a proportion of the indirect expenses according to the ratio that the wages paid on each contract bears to the total amount of wages paid.
2. To charge each contract with a proportion of indirect expenses according to the ratio that the total expenditure on each contract bears to the total expenditure on all contracts.

In the case of factories the indirect expenses are divisible into two kinds, viz. Manufacturing Expenses and General Establishment Expenses. The former are apportioned according to circumstances—items such as rent, rates and taxes, gas, water, etc., being charged according to the floor-space occupied. Other items and General Establishment Expenses may be apportioned according to the amount of wages paid, or according to the output of each department.

Distinguish between the terms "Prime Cost" and "Cost of Production."

A. Prime Cost is the actual factory cost, and comprises the cost of materials, labour, and direct expenses.

Cost of Production is the total working cost, and comprises the prime cost and indirect expenses.

Q. What are Contract Accounts?

A. Contract Accounts may be divided into two kinds, viz.—

1. Simple Contract Accounts
2. Departmental Contract Accounts.

Simple Contract Accounts are those which relate to the cost of carrying out distinct contracts, such as those entered

into by builders. The purpose of such accounts is to show the cost of each contract and the resulting profit or loss.

Departmental Contract Accounts are those which relate to the cost of executing contracts, the work upon which is performed by different departments, *e.g.* engineering contracts. Their purposes are to show—

- (a) The cost of each contract and the resulting profit or loss.
- (b) The cost and result of the work performed by each department.

Q. What are Output or Single Cost Accounts ?

A. Output or Single Cost Accounts are those which relate to the cost of producing a single commodity such as coal or pig-iron. Their purpose is to show the various items of cost per unit (*e.g.* a ton) of a given output.

Q. What are Working Cost Accounts ?

A. Working Cost Accounts are those which relate to the cost of working large undertakings, such as Gas and Electric Lighting Companies.

Q. What are Factory Cost Accounts ?

A. Factory Cost Accounts may be divided into three kinds, viz.—

- 1. Departmental Factory Cost Accounts.
- 2. Multiple Cost Accounts.
- 3. Process Cost Accounts.

Departmental Factory Cost Accounts are applicable to factories consisting of several departments each engaged in the manufacture of distinct classes of goods. Their purpose is to show the cost of working each department.

Multiple Cost Accounts are applicable to factories engaged in the manufacture of several different commodities. Their purpose is to show the cost of production of a given quantity of each commodity.

Process Cost Accounts are applicable to factories engaged in the manufacture of a single commodity. Their purpose is to show the cost of each process in the manufacture of such commodity.

Q. Are Costs Accounts part of the general system of double-entry book-keeping ?

A. Costs Accounts may, in certain cases, form part of the general system of book-keeping, but in the majority of cases

Labour and Direct Expenses.

4. All wages and expenses incurred on each contract will be separately stated in the Cash Book and posted direct to the debit of the Contract Accounts.

Completed Contracts.

5. When a contract is completed the contract price will be credited to the Contract Account, and debited to the account with the person for whom the work has been done.
6. The balance of the Contract Account will then represent the profit or loss on the contract, and will be transferred to Profit and Loss Account.

Uncompleted Contracts.

7. In preparing a Balance-sheet the debit balances on the accounts of Contracts not completed will be shown on the credit (or assets) side as Work in Progress.
8. Any sums received on account of uncompleted contracts will be credited to accounts with the persons for whom the contracts are being executed, and the total of such items should be shown in the Balance-sheet, not as a liability, but as a deduction from the total amount of Work in Progress; thus—

	£	£	s.	d.
By Work in Progress	1250			
Less payments on account	500			
	—	750	0	0

9. The Profit and Loss Account will show on the credit side the profit on contracts, and on the debit side the general administrative expenses.

Outline a system of Simple Contract Accounts for a contractor whose Cost Accounts are kept distinct from the general financial books.

A. In addition to the general books of account there will be a separate set of books relating to the cost of carrying out the various contracts. The most important of these is the Cost Ledger, which will contain an account for each contract. Each of these accounts will be debited with the various items of cost—materials used, wages, direct and indirect expenses. Each account will finally be credited with the contract price of the work, and with the value of any plant or materials returned from the contract. The balance of each Contract Account will then represent the profit or loss on the Contract.

The following is a form of Cost Ledger:—

COST LEDGER

Dr.										Cr.					
Particu- lars.	Wages.	Salaries	Stores.	Plant.	Special Mate- rials.	Ex- penses.	Prime Cost.	Estab- lishment Charges	Total.	Date.	Particu- lars.	Stores re- turned.	Plant Re- turned.	Contract Price.	Total.
	£ s. d.	£ s. d.	£ s. d.	£ s. d.		£ s. d.	£ s. d.	£ s. d.	£ s. d.			£ s. d.	£ s. d.	£ s. d.	£ s. d.

All purchases of plant, stores, special materials, etc., will be entered in a Purchases Book arranged on the departmental system.

PURCHASES BOOK.

[illegible]

The amount of each invoice will be credited to the personal account in the Bought Ledger, and the totals of the analysis columns will be debited to accounts in the General Ledger, *e.g.* Plant Account, Stores Account, and Special Materials Account. In addition, the items in the Special Materials column will be posted to the debit of the accounts in the Cost Ledger for the contracts for which the special materials have been purchased.

For the purpose of writing up the Cost Ledger Accounts a record will be kept of all plant and stores issued for use on the contracts. The storekeeper will keep a Stores Issued Book, recording the quantity and value of stores issued, etc. The following is a form of such a book :

STORES ISSUED BOOK.

Date.	No. of Requisition.	Name or No. of Contract.	Quantities.	Description.	Price.		Amount.	
					£	s. d.	£	s. d.

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[illegible]

A similar analysis will be adopted with regard to plant issued.

In the general books of account a record will be kept of the *total* value of stores and materials used, wages paid, and expenses incurred on *all* contracts. Periodically the total value of stores issued for use on contracts will be credited to Stores (Stock and Purchases) Account and debited to Stores Issued Account in the General Ledger. Similar entries will be made with regard to plant issued. Special Materials Account in the General Ledger represents the cost of all materials specially purchased for use on contracts. As wages are paid, Wages Account in the General Ledger will be debited and Cash will be credited. Similar entries will be made to record expenses.

At balancing period the total expenditure on uncompleted contracts will be ascertained from the Cost Ledger, and a Journal entry will be made thus—

Work in Progress Account	Dr.
To Trading Account.	

The Balance of Contracts Account will be transferred to the credit of Trading Account, and all such accounts as Special Materials, Stores, Wages, Expenses, etc., will be closed by transfer to the debit of Trading and Profit and Loss Account in the usual manner.

If it is desired to take credit for a proportion of profit on Work in Progress, the amount agreed upon will be debited to Work in Progress Account and credited to Trading Account.

At each balancing period the Work in Progress at the end of the previous period will be debited to Trading Account.

Draft pro formâ Trading and Profit and Loss Account of a contractor.

A.—

DR. TRADING AND PROFIT AND LOSS ACCOUNT. CR.

	£	s.	d.			£	s.	d.
To Work in Progress (at commencement of period) .				By Contracts " Work in Progress (at end of period) .				
To Special Materials .								
To Stores .								
„ Plant .								
„ Wages .								
„ Expenses .								
„ Gross Profit .								
Salaries .				By Gross Profit .				
Rent and Rates .								
Travelling Expenses .								
Trade Expenses .								
Depreciation .								
Net Profit .								

Q. What is a Cost Sheet?

A. A Cost Sheet is a tabulated statement showing—

- (a) The total cost of production of a certain quantity of manufactured or partly manufactured goods, or of a certain output of minerals;

- (b) The various items which are included in the total cost ;
 (c) The total cost per unit of production ;
 (d) The cost per unit of production of each item of expenditure.

The Cost Sheet is usually designed to facilitate comparisons of the cost during one period with that of another period.

Draft a form of Cost Sheet for a colliery.

A.—

COST SHEET.

	January, 1910. Tons raised.....			February, 1910. Tons raised.....					
	Cost per Ton.		Cost per Ton.	Cost per Ton.		Amount.			
	£	s.	d.	£	s.	d.	£	s.	d.
Wages :									
Underground									
Surface									
Working Expenses :									
Timber									
Stores									
Stable Expenses									
Repairs									
Surface Rents, Rates, &c.									
Depreciation									
Royalties									
Administration Expenses :									
Establishment Charges									
Total Cost									

Draft pro forma Working and Trading Accounts suitable for a firm of iron smelters.

A.—

Dr.

FURNACE ACCOUNT.

Cr.

	£ s. d.				£ s. d.		
To Wages				By Sales of Slag			
" Coal				" Sales of Sand			
" Coke				" Pig-iron produced trans-			
" Limestone				ferred to			
" Ironstone				Trading Ac-			
" Materials				count			
" Works Salaries							

DR.

TRADING ACCOUNT.

CR.

	£	s.	d.		£	s.	d.
To Stock of Pig-iron (at commencement of period)				By Sales of Pig-iron			
„ Cost of Pig-iron produced as per Furnace Account				„ Stock of Pig-iron (at end of period)			
„ Trade Expenses							
„ Balance carried to Profit and Loss Account							

From the following Trading Account ascertain—

(a) The cost of materials used.

(b) The value of the output of manufactured goods.

DR.

TRADING ACCOUNT.

CR.

	£	s.	d.		£	s.	d.
To Stocks—				By Sales			
„ Finished £				of Finished			
„ Goods 4000				Goods	42,000	0	0
„ Raw				„ Stocks—			
„ Materials 1200				„ Finished £			
	5200	0	0	„ Goods 3500			
„ Purchases	12,000	0	0	„ Raw			
„ Wages	20,000	0	0	„ Materials 1400			
„ Carriage	1000	0	0		4900	0	0
„ Gross Profit	8700	0	0				
					46,900	0	0
	46,900	0	0				

A. The cost of materials used = £11,800, arrived at thus—

	£	£	s.	d.
Stock of raw materials at commencement	1,200			
Add Purchases	12,000			
	<hr/>			
	13,200			
Less Stock at end of period	1,400			
	<hr/>	11,800	0	0

Value of the output = £41,500 arrived at thus—

	£	£	s.	d.
Sales of Finished Goods	42,000			
Add Stock at end of period	3,500			
	<hr/>			
	45,500			
Less Stock at commencement	4,000			
	<hr/>	41,500	0	0

From the figures in the foregoing example ascertain the percentage of gross profit on sales.

A. The percentage of gross profit on sales =

$$\frac{8700 \times 100}{42,000} = \frac{870}{42} = 20.71$$

Q. Certain goods cost £230. At what price must they be sold to realize a profit of 15 per cent. on the selling price?

A. Every £85 of cost must realize £100. Therefore the goods must be sold for

$$\frac{230 \times 100}{85} = £270 \text{ 11s. 9d.}$$

Q. What steps should be taken to avoid inaccuracies and irregularities in regard to the payment of Wages in a manufacturing establishment?

A. Separate wages sheets should be prepared for each department from the records of time and piece workers. The sheets will be signed as correct by the respective foremen. The calculations will be made by one clerk in the office and checked by another. A third clerk will enter the names and particulars in the Wages Book, and a cheque will be drawn for the exact

amount to be paid. The person who pays should have had nothing to do with preparing the wages list, and the payment should be occasionally supervised by a responsible person. If a workman is absent, the amount appearing to be due to him should only be paid to his representative upon special application being made, and satisfactory reasons for his absence being given.

Tabular or Columnar system—Tabular form of Cash Book for a charitable institution—Hotel Book-keeping—Books required—Forms of Purchases Book and Cash Book—Visitors' Day Book and Ledger—Examples illustrating method of keeping same—Pro formá Trading and Profit and Loss Account for hotel.

Q. What is meant by the tabular system of book-keeping?

A. The tabular system of book-keeping is a system of grouping together, by means of columns, numerous items of a similar character which can thus be posted in total instead of in detail, thereby effecting a saving of time and labour without interfering with the principles of double-entry book-keeping.

Draft a tabular form of Cash Book suitable for a charitable institution, and point out its advantages.

A.—

Dn.	CASH.		CONTRA.		Cr.
Date.					
Particulars.					
Receipt No.					
Folio.					
Subscriptions.					
	£ s. d.				
Donations.					
	£ s. d.				
Sundries.					
	£ s. d.				
Bank.					
	£ s. d.				
Date.					
Particulars.					
Voucher No.					
Folio.					
Wages and Salaries.					
	£ s. d.				
Rent, Rates, etc.					
	£ s. d.				
Printing and Stationery.					
	£ s. d.				
Postages.					
	£ s. d.				
Sundries.					
	£ s. d.				
Bank.					
	£ s. d.				

All subscriptions and donations would be entered in the columns provided therefor, and as the daily totals are paid into the Bank, the amounts thereof would be entered in the Bank

D.A.B.

x

column. Periodically the total of the Subscriptions column will be posted to the credit of Subscriptions Account in the Ledger. Thus Bank Account (kept in the Cash Book) is debited with the daily amounts paid in and Subscriptions Account is credited with, say, the monthly or quarterly total. A similar method would be adopted with regard to Donations, Wages and Salaries, Rent, Rates, etc., Printing and Stationery, Postages. The items in the columns for Sundries would be posted in detail to the credit or debit of accounts in the Ledger.

Q. What forms of account are specified for hospitals receiving grants from the Hospital Sunday and similar funds?

A. In hospital accounts the income is shown on the Dr. side and the expenditure on the Cr. side, in order to comply with the prescribed forms, of which the following are *pro formâ* examples:—

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR
ENDING DECEMBER 31, 1909.

DR.				CR.			
Income.				Expenditure.			
	£	s.	d.		£	s.	d.
Annual Subscriptions as per List . . .				Maintenance . .			
Donations as per List . . .				Provisions . . .			
Collecting Boxes				Surgery and Dispensary . .			
Hospital Sunday Fund . . .				Domestic (detailed) . .			
Entertainments				Establishment Charges . .			
Invested Property—				Salaries, Wages, etc. . .			
Interest on Deposit Accounts				Miscellaneous Expenses . .			
Rents . . .				Administration . .			
Patients' Payments . . .				Total Ordinary Expenditure . .			
Other Receipts (detailed) . .				Balance at Bank, Dec. 31, 1909 .			
Petty Cash in hand, Jan. 1, 1909 . . .				Petty Cash in hand Dec. 31, 1909 . .			
Balance at Bank Jan. 1, 1909 . .				Extraordinary Expenditure (detailed)			

The transactions to be recorded are purchases and expenses on the one side and sales and receipts from visitors on the other—the difference being profit.

Credit purchases and expenses will be entered in the Purchases Book, the items being credited to personal accounts, and the totals of each analysis column being debited to the appropriate real and nominal accounts.

Cash purchases and petty expenses will be recorded in a tabular form of Petty Cash Book, kept on the imprest system.

Credit sales will be entered in a Sales Book kept and posted in the ordinary manner, but ruled to suit the special requirements of the business.

All services and goods supplied to visitors will be recorded in the Visitors' Day Book and posted each day to the Visitors' Ledger. The Visitors' Day Book is written up from various sources, but principally from tickets bearing the numbers of the visitors' rooms, and handed into the office by the waiters, billiard-markers, and others.

The purpose of the Visitors' Ledger is to record the amounts to be charged to each visitor for apartments, attendance, etc., the amount paid by each visitor, and the amount due from each visitor. At the end of each month the following information is obtained from this book, viz.—

1. The total amount charged to *all* visitors for services and supplies during the month. This amount is debited to the total Visitors' Account in the General Ledger.
2. The amounts to be credited to all nominal and real accounts for the above services and supplies, the total credits being the same as the total amount debited to Visitors' Account.
3. The total amount of cash received from and allowances made to visitors during the month. The cash will have been entered daily in the Cash Book in the column headed Visitors, the total of which will be posted to the credit of Visitors' Account in the General Ledger, and should agree with the total cash received as shown in the Visitors' Ledger.

Allowances to visitors will be journalized thus—

Allowances Account. Dr.
 To Visitors' Account.
 (General Ledger.)

If a visitor leaves the hotel without paying his account, the amount due should be transferred to the debit of a personal

VISITORS' LEDGER

account, and to the credit of Visitors' Account in the General Ledger, thus—

A. B. Dr.
To Visitors' Account.

When payment is subsequently made, the amount will be entered in the Cash Book in the column headed Ledger Accounts (Dr. side), and will be posted to the credit of the personal account.

The balance of the Visitors' Account at the end of each month should agree with the total balance shown by the Visitors' Ledger to be due from visitors.

The following is a short form of Visitors' Ledger with transactions for two days, to illustrate the method by which the entries are made and carried forward each day.

VISITORS' LEDGER, June 1, 1910.

	Room No. 1.			Room No. 2.			Room No. 3.				Daily Total.			Brought forward.			Carried forward.		
	£	s.	d.	£	s.	d.	£	s.	d.		£	s.	d.	£	s.	d.	£	s.	d.
<i>Debits—</i>										<i>Debits—</i>									
Balance										Balance									
brt. ford.										brt. ford.									
Apartments.	3	6		3	6		3	6		Apartments.	10	6					10	6	
Attendance.	1	0		1	0		1	0		Attendance.	3	0					3	0	
Breakfast,										Breakfast,									
etc. .	4	0		5	0		7	0		etc. .	16	0					16	0	
	8	6		9	6		11	6			1	9	6				1	9	6
<i>Credits—</i>										<i>Credits—</i>									
Allowances.										Allowances.									
Cash .	8	6					11	6		Cash .	1	0	0				1	0	0
Ledg. Accts.										Ledg. Accts.									
Carr. ford. .				9	6					Carr. ford. .	9	6					9	6	
	8	6		9	6		11	6			1	9	6				1	9	6

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VISITORS' LEDGER, June 2, 1910.

	Room No. 1.	Room No. 2.	Room No. 3.		Daily Total.	Brought forward.	Carried forward.
	£ s. d.	£ s. d.	£ s. d.		£ s. d.	£ s. d.	£ s. d.
<i>Debits—</i>				<i>Debits—</i>			
Balance				Balance			
brt. ford.		9 6		brt. ford.	9 6		
Apartments.	8 6	8 6		Apartments	7 0	10 6	17 6
Attendance.	1 0	1 0		Attendance	2 0	8 0	5 0
Breakfast, etc. .	7 0	2 6		Breakfast, etc.	9 6	16 0	1 5 6
	11 6	16 6			1 8 0	1 9 6	2 8 0
<i>Credits—</i>				<i>Credits—</i>			
Allowances .				Allowances.			
Cash .		16 6		Cash .	16 6	1 0 0	1 16 6
Ledg. Accts.				Ledg. Accts.			
Carr. ford. .	11 6			Carr. ford. .	11 6		11 6
	11 6	16 6			1 8 0	1 0 0	2 8 0

At the end of each month the totals will be journalized thus, and posted to accounts in the General Ledger—

	£ s. d.	£ s. d.
Visitors' Account Dr.	2 8 0	
To Sundries—		
Apartments, etc.		1 2 6
Provisions		1 5 6
For Services and Supplies to Visitors for the Month		

Against the above debit of £2 8s. 0d. will be credited the total each received—£1 16s. 6d.—leaving a debit balance of 11s. 6d. on the Visitors' Account in the General Ledger, which agrees with the last item carried forward in the Visitors' Ledger.

At balancing-time the various stocks of provisions, wines, etc., are taken and the values credited to the respective Stock Accounts in the General Ledger, and carried forward as debits on the next period's accounts, the intermediate balances being transferred to Trading and Profit and Loss Account, of which the following is a *pro formâ* example :—

HOTEL ACCOUNTS

DR. TRADING AND PROFIT LOSS ACCOUNT. CR.

	£	s.	d.			£	s.	d.
To Wages .					By Visitors .			
„ Provisions					„ Restaurant			
„ Wines,					„ Bar . .			
„ Spirits, etc.					„ Billiard			
„ Cigars and					Room .			
Cigarettes								
„ Gross								
„ Profit c/d								
To Salaries .					By Gross			
„ Rent,					Profit .			
„ Rates, and								
Taxes . .								
„ Lighting .								
„ Hire of								
Furniture								
„ Deprecia-								
tion . .								
„ Net Profit								

CHAPTER XLII.

Statement of Affairs (Bankruptcy)—Form of Front Sheet and Deficiency Account—Method of preparation—Example—Difference between Bankruptcy and Companies (Winding-up) Forms.

Q. What events must happen before a person can be made bankrupt?

A. Before a person can be made bankrupt it is necessary that he shall have committed an Act of Bankruptcy, i.e. one of several acts which are legally accepted as proof of insolvency. The next step is to present a petition in Bankruptcy, which must be done within three months of the date of the Act of Bankruptcy upon which the petition is founded. The amount of the debt due to the petitioner or petitioners must be not less than £50, and if the Court is satisfied that the provisions of the Bankruptcy Acts have been complied with, a Receiving Order may be made against the debtor. The effect of the Receiving Order is that the property of the debtor is taken over by the Official Receiver, and all proceedings against the debtor or his property are stayed. A meeting of creditors is subsequently convened by the Official Receiver to consider any proposal submitted on behalf of the debtor and to decide whether or not the debtor shall be adjudicated bankrupt.

Q. What Statement of Accounts is required of a debtor against whom a Receiving Order in Bankruptcy has been made?

A. The debtor is required to file with the Official Receiver a Statement of Affairs in the prescribed form. This document is composed of two principal parts officially known as the

- (a) Front Sheet ;
- (b) Deficiency Account ;

of which the following are the forms :—

In the High Court of Justice.

IN BANKRUPTCY.

No.

of 19 .

RE

TO THE DEBTOR.—You are required to fill up, carefully and accurately, this sheet, and the several sheets A, B, C, D, E, F, G, H, I, J, and K, showing the state of your affairs on the day on which the Receiving Order was made against you, viz. the day of 19 . Such sheets, when filled up, will constitute your Statement of Affairs, and must be verified by oath or declaration.

Gross Liabilities.		Liabilities (as stated and estimated by Debtor).		Expected to rank.		Assets (as stated and estimated by Debtor).		Estimated to produce.	
£	s. d.			£	s. d.			£	s. d.
		Unsecured Creditors as per list (A)				Property as per list (H), viz. :—			
		Creditors fully secured, as per list (B)				(a) Cash at Bankers			
		Estimated value of Securities				(b) Cash in hand			
		Surplus				(c) Cash deposited with Solicitor for Costs of Petition			
		Less amount thereof carried to sheet (C)				(d) Stock-in-trade (cost £)			
		Balance thereof to contra				(e) Machinery			
		Creditors partly secured, as per list (C)				(f) Trade fixtures, fittings, utensils, etc.			
		Less estimated value of Securities				(g) Farming stock			
		Liabilities on Bills discounted other than Debtor's own acceptances for value as per list (D), viz. :—				(h) Growing crops and Tenant right			
		On Accommodation Bills as Drawer, Acceptor, or Indorser				(i) Furniture			
		On other Bills as Drawer or Indorser				(j) Life policies			
						(k) Other property, viz. :—			
		Of which it is expected will rank against the estate for dividend				Total as per list (H)			
		Contingent or other Liabilities as per list (E) £				Book Debts as per list (I), viz. :—			
		Of which it is expected will rank against the estate for dividend				Good			
		Creditors for rent, etc., recoverable by distress, as per list (F)				Doubtful			
		Creditors for rates, taxes, wages, etc., payable in full, as per list (G)				Bad			
		Sheriff's charges payable under s. 11 of the Bankruptcy Act of 1890, estimated at				Estimated to produce			
		Deducted contra				Bills of Exchange or other similar Securities in hand as per list (J) £			
						Estimated to produce			
						Surplus from Securities in the hands of Creditors fully secured (per contra)			
						Deduct Creditors for distrainable rent, and preferential rates, taxes, wages, sheriff's charges, etc. (per contra)			
						Deficiency explained in Statement (K)			

I of in the County of make oath and say that the above Statement and the several lists hereunto annexed, marked are, to the best of my knowledge and belief, a full, true, and complete statement of my affairs on the date of the above-mentioned Receiving Order made against me.

Sworn at
in the County of
this day of 19 . Signature
Before me

DEFICIENCY ACCOUNT

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K. DEFICIENCY ACCOUNT.

£	s.	d.	£	s.	d.
Excess of Assets over Liabilities on the (1) day of 19 (if any).			Excess of Liabilities over Assets on the (1) day of 19 (if any)		
Net Profit (if any) arising from carrying on business from the (1) day of 19, to date of Receiving Order, after deducting usual Trade Expenses.			Net loss (if any) arising from carrying on business from the (1) day of 19, to date of Receiving Order, after deducting from Profits the usual Trade Expenses.		
Income or Profit from other sources (if any) since the (1) day of 19.			Bad debts (if any) as per Schedule "I" (2).		
			Expenses incurred since the (1) day of 19, other than usual Trade Expenses, viz. Household Expenses of self and (3).		
			(4) Other Losses and Expenses (if any) —		
Deficiency as per Statement of Affairs			Surplus as per Statement of Affairs (if any)		
Total amount to be accounted for. (5) £			Total amount accounted for. (5) £		

NOTES.—(1) This date should be twelve months before date of Receiving Order, or such other time as Official Receiver may have fixed.

(2) This Schedule must show when debts were contracted.

(3) Add "wife and children" (if any), stating number of latter.

(4) Here add particulars of other losses or expenses (if any), including Depreciation in the value of Stock and Effects or other property as estimated for realization; and Liabilities (if any) for which no consideration received.

(5) These figures should agree.

Signature

Dated

19 .

316 PREPARATION OF A STATEMENT OF AFFAIRS

The sheets A to J contain details of the items inserted in the Front Sheet.

The Deficiency Account is intended to explain the cause of the debtor's financial position.

Q. How is a Statement of Affairs prepared ?

A. The method is as follows :—

1. See that the debtor's books are fully written up to the date of the Receiving Order, and that all liabilities and assets are brought to account.
2. Ascertain particulars of any contingent liabilities on unmatured or dishonoured bills, and see that all accommodation bills (if any) are recorded in the books.
3. Prepare a Trial Balance from the debtor's books.
4. Prepare a draft Trading and Profit and Loss Account and Balance-Sheet as at the date of the Receiving Order.
5. Go through the list of liabilities with the debtor, and obtain particulars of all securities lodged with creditors and the debtor's estimate of the value thereof, which should be inserted against the items in the list.
6. Go through the list of assets available to meet the claims of unsecured creditors, and obtain the debtor's estimates of their value, including book debts, separating good, bad, and doubtful debts.
7. Ascertain whether the landlord has taken any action which entitles him to be paid the whole or part of his rent in full. The landlord can distrain either before or after the commencement of the bankruptcy (*i.e.* the Act of Bankruptcy on which the petition is founded), but if distraint be levied after the commencement of the bankruptcy, the landlord can only retain six months' rent accrued due prior to the date of adjudication.

In the event of a landlord or other person distraining or having distrained on any goods or effects of a bankrupt within three months next before the date of the Receiving Order, the debts to which priority is given by the Preferential Payments in Bankruptcy Act, 1888, shall be a first charge on the goods or effects so distrained on or the proceeds of the sale thereof; but in respect of any money paid under any such charge the landlord or other person

shall have the same rights of priority as the person to whom such payment is made.

8. Ascertain the names of and amounts owing to preferential creditors, as defined in the Preferential Payments in Bankruptcy Act, 1888. They comprise—

- (1) All rates and taxes due at the date of the Receiving Order, and having become due and payable within a certain period.

- (2) All wages and salary of any clerk in respect of services rendered during *four* months before the date of the Receiving Order not exceeding £50.

- (3) All wages of any labourer or workman not exceeding £25 in respect of services rendered during *two* months before the date of the Receiving Order.

9. Ascertain the amount of sheriff's charges (if any).

10. From the above information prepare the Front Sheet, at the same time making a list of all estimated losses on realization of—

- (a) Securities lodged with creditors.

- (b) Assets available to meet the claims of unsecured creditors.

Also of any other estimated losses in respect of contingent liabilities, accommodation bills, etc.

11. Prepare sheets A to I.

12. Prepare Deficiency Account, starting with the surplus or deficit of assets over liabilities on the date agreed with the Official Receiver. Incorporate the figures contained in all the Profit and Loss Accounts prepared from such date to the date of the Receiving Order, adding the further estimated losses on realization ascertained when preparing the Front Sheet.

The forms should be strictly adhered to, and in preparing the Front Sheet care should be taken to ensure that the surplus from securities in the hands of fully secured creditors is carried forward to the partly secured creditors or to the assets side, according to the circumstances; also that the amount payable to creditors in full is first shown as a liability in the inner column on the left-hand side, and is then deducted from the total assets shown on the opposite side.

Example.—A. filed his petition on Dec. 31, 1906, and his Statement of Affairs was composed of the following figures: Creditors unsecured, £75,000; Creditors partly secured by lien on shares, £40,000; Creditors fully secured by lien on stock, £100; Liability on bills

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receivable (estimated to rank £3500), £7000; Mortgage on mill, £10,000; creditors payable in full, £3000; Book debts: good £20,000, doubtful and bad £10,000, estimated to produce £2000; consignments, good, £5000; Stock, £60,000, estimated to realize £40,000; Shares cost and estimated to realize £16,000; Cash and bills, £1500; Mill valued at £11,000; Machinery, £15,000, estimated to realize £12,000; Fixtures, £3000, estimated to realize £1500; Cottages, £3500, estimated to realize £3000.

On Jan. 1, 1901, he had a capital of £50,000. Profits were made in the six years of £20,500, after allowing interest on capital, £10,000. Withdrawals amounted to £63,600.

Prepare the Statement of Affairs and Deficiency Account.

(Institute of C. A. Final, 1908.)

A.—

DR.

STATEMENT OF AFFAIRS.

CR.

Gross Liabilities.		Liabilities (as stated and estimated by the Debtor).		Expected to rank.		Assets (as stated and estimated by the Debtor).		Estimated to produce.	
£		£	s. d.	£	s. d.	£	s. d.	£	s. d.
75,000	Unsecured Creditors, as per list (A)			75,000	0 0	Property as per list (H)			
		£	s. d.			Cash and bills			1500 0 0
10,100	Creditors, fully secured as per list (B)	10,100	0 0			Stock-in-trade (cost £60,000)	40,000	0 0	
	Estimated value of Securities	11,100	0 0			Less held as lien by Creditor, fully secured	100	0 0	
	Surplus to contra	1000	0 0						39,900 0 0
						Consignments			5000 0 0
						Machinery (cost £15,000)			12,000 0 0
						Fixtures (cost £3000)			1500 0 0
						Cottages cost (£3500)			3000 0 0
40,000	Creditors partly secured as per list (C)	40,000	0 0						62,900 0 0
	Less Estimated value of Securities	16,000	0 0			Book Debts as per list (I), viz.			
				24,000	0 0	Good			20,000 0 0
						Doubtful and Bad	10,000	0 0	
7000	Liabilities on Bills discounted other than the Debtor's own acceptances for value as per list (D)	7000	0 0			Estimated to produce			2000 0 0
						Surplus from Securities in the hands of Creditors fully secured (per contra)			1000 0 0
									85,900 0 0
	Of which it is expected will rank against the Estate for dividend			3500	0 0	Deduct Creditors payable in full (per contra)			3000 0 0
		£	s. d.						82,900 0 0
3000	Creditors payable in full deducted contra as per list	3000	0 0			Deficiency			19,600 0 0
135,100				102,500	0 0				102,500 0 0

DEFICIENCY ACCOUNT

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Dr.

DEFICIENCY ACCOUNT.

Cr.

	£	s.	d.		£	s.	d.	£	s.	d.
Excess of Assets over Liabilities on Jan. 1, 1901	50,000	0	0	Bad Debts				4000	0	0
Net Profit arising from carrying on business from Jan. 1, 1901, to Dec. 31, 1908, after deducting the usual Trade Expenses	30,500	0	0	Expenses incurred since Jan. 1, 1901, other than usual Trade Expenses, viz.: Household Expenses				63,600	0	0
Deficiency as per Statement of Affairs	19,500	0	0	Other Losses and Expenses—						
				On Stock-in-Trade	20,000	0	0			
				„ Machinery	3000	0	0			
				„ Fixtures	1500	0	0			
				„ Cottages	500	0	0			
				„ Bills Receivable discounted	3500	0	0			
								28,500	0	0
	100,100	0	0					100,100	0	0

Q. What is the difference between the forms of a debtor's Statement of Affairs, and the Statement of Affairs required of a Company ordered to be wound up by the Court?

A. The form of Statement of Affairs prescribed for Companies is framed on the same principles as the Bankruptcy form, with the addition that the Front Sheet is divided into two parts—the first part relating to creditors, and the second part to shareholders. The method of preparation is the same, except that the necessary information as to estimated values, etc., is furnished by the directors or other officers of the company, instead of by the debtor.

CHAPTER XLIII.

Banking—Definition of money, credit, instruments of credit—Banks of issue and deposit—Private Banks and Joint Stock Banks—Bank of England: short history—Bank Charter Act, 1844—The relation of Bank of England to the Government, the banking world, and to the public—Definition of Treasury Bills, Exchequer Bills, Exchequer bonds—Bank Rate and Market Rate—The Bank Return—Letters of credit—Circular notes.

Q. What is meant by the term "Banking" ?

A. "Banking" is a term applied to that branch of transactions which relates to dealings in money, credit, and instruments of credit.

Define "Money," "Credit," and "Instruments of Credit."

A. Money is the common medium of exchange, or that which is commonly accepted by a creditor in satisfaction of indebtedness.

Credit is an immediate right to the future use or possession of money.

An Instrument of Credit is a document which confers upon the holder the right to be paid a certain sum of money by some person or persons named.

Distinguish between: Banks of Issue and Banks of Deposit; Private Banks and Joint Stock Banks.

A. Banks of Issue are those which have the right to receive deposits and to issue bank-notes payable to bearer on demand. Comparatively few Banks in England and Wales are now Banks of Issue.

Banks of Deposit are those which have the right to receive money from depositors, but have no power to issue notes payable to bearer on demand.

Private Banks are those which are owned by private individuals or firms.

Joint Stock Banks are those which are owned by corporate

bodies, the majority of which are registered under the Companies (Consolidation) Act, 1908.

Give a short history of the Bank of England.

A. The Bank of England was founded on July 27, 1694, when funds were required by the Government of William III. to prosecute the war with France. The idea was conceived by William Paterson, a Scotch merchant, whose scheme was that £1,200,000 should be subscribed by the public, and lent to the Government at 8 per cent. per annum, in addition to an allowance of £4000 per annum for management expenses, the subscribers to be incorporated into a body to be known as the Governor and Company of the Bank of England. In return for its services to the Government, the Bank was to have certain privileges, one of which was the right to issue notes to the extent of its capital.

In 1708 the Bank secured the monopoly of joint stock banking in England, and this continued until 1826, when it was abolished, the Bank receiving compensation by being the only Joint Stock Bank of Issue within 65 miles of St. Paul's, London.

In 1833 the establishment of Joint Stock Banks in London was specifically authorized by Statute, provided they did not issue notes payable to bearer on demand, and in the same year Bank of England notes were made legal tender.

Until 1844 the Bank of England and every other Bank of Issue had the right to issue notes to any extent, but prior to that year financial crises had occurred, and the cause was attributed to the over-issue of notes. An inquiry by the Government of Sir Robert Peel resulted in the passing of the Bank Charter Act, 1844, which provided—

1. That the Issue Department of the Bank of England should be separated from the Banking Department.
2. That securities to the value of £14,000,000, including the Government debt, should be transferred to the Issue Department, together with so much coin and bullion that the total amount so transferred should equal the amount of notes then outstanding, and thereafter the Issue Department was not to issue notes in excess of £14,000,000, except in exchange for gold coin or bullion.
3. That if any Bank of Issue relinquished its right to issue notes, the Bank was authorized to increase its issue against securities to the extent of two-thirds of the issue so relinquished.
4. That the Bank should issue a Weekly Return, showing

the positions of the Issue and Banking Departments respectively.

5. That Banks consisting of more than six persons, although within 65 miles of St. Paul's, might draw, accept, or endorse bills of exchange not being payable to bearer on demand.
6. That any person might demand notes from the Issue Department in exchange for gold bullion at the rate of £3 17s. 9d. per ounce.

The main purpose of the Act was to secure the convertibility of Bank of England notes, and to reduce the issue of country banknotes. The Act is still in force, and forms the basis of the present constitution of the Bank of England, whose capital now amounts to £14,553,000.

Q. What is the relation of the Bank of England to the (a) Government ; (b) the banking world ; and (c) the general public ?

A. (a) The Bank of England is the banking house of the Government. It keeps the banking accounts of all Government Departments, and acts as financial agent for the Government in the issue of loans, Treasury Bills, Exchequer Bills, etc. Although it is not a department of the State, the Bank is closely associated with the financial operations of the Government, including the management of the public debt.

(b) Owing to the special position occupied by the Bank of England, it is used by the banking world as the custodian of a proportion of their reserves, and every member of the Bankers' Clearing House must keep a current account at the Bank. In other respects the business of the Bank of England is conducted with a view to earning profits like that of other Banks, with which it is to some extent in competition.

(c) The relation of the Bank of England to the general public arises from the power of the Bank to raise or lower the value of money, which is exercised by means of the Bank Rate of discount. A rise or fall in the Bank Rate has an immediate effect on the rates charged and allowed by all other Banks for discounting bills, granting loans, etc., and for moneys deposited. The Bank of England may also be regarded as the guardian of the financial credit of the country, since it controls the greater part of the gold upon which such credit is based.

Define "Treasury Bills," "Exchequer Bills," "Exchequer Bonds," "Bank Rate," "Market Rate."

A. Treasury Bills are instruments of credit issued by the

Government to raise funds for temporary purposes. They bear no interest, but are issued at a discount, and are payable at three and six months after date.

Exchequer Bills are issued by the Treasury to raise funds for temporary purposes. They are issued in multiples of £100, with interest coupons for five years payable to bearer. The rate of interest is fixed for a year, and the amount of interest is not, therefore, stated on the coupons. The holder may demand repayment of the principal at the end of any one year from the date of the issue.

Exchequer Bonds are issued by the Treasury, and differ from Exchequer Bills in the following respects :—

1. They are issued for a definite period not exceeding six years, interest ceasing when the bonds mature.
2. The annual rate of interest payable is fixed when the bonds are issued.
3. The bonds may be inscribed in the books of the Bank, and certificates of such inscription given in lieu of bonds.

Bank Rate is nominally the minimum rate of discount charged by the Bank of England for discounting approved bills of exchange. It is regulated according to the state of the money market, the foreign rates of exchange, and the ratio which the reserve of gold and notes in the Banking Department bears to the Public and Other Deposits. The Bank Rate is a little higher than the Market Rate, and for this reason the Bank charges its own customers the lower rate.

The Market Rate is the rate of discount charged by the Money Market, *i.e.* bill brokers and discount houses for discounting bills. The Market Rate is generally regulated by the Bank Rate.

Q. What is meant by the term " Money Market " ?

A. " Money Market " is the term applied to the transactions of bill-brokers, bankers, bullion merchants, and others who either have command of loanable capital or require the use thereof.

Give an example and explanation of the Bank Return.

A. The following is the Return for the week ending Wednesday, June 15, 1910 :—

BANK RETURN

BANK OF ENGLAND.

An Account pursuant to the Act 7 & 8 Victoria, cap. 32, for the week ending on Wednesday, the 15th day of June, 1910.

ISSUE DEPARTMENT.

	£	s.	d.		£	s.	d.
Notes issued . . .	59,522,745	0	0	Government Debt	11,015,100	0	0
				Other Securities .	7,484,900	0	0
				Gold Coin and			
				Bullion . . .	41,072,745	0	0
				Silver Bullion .	—	—	—
	<u>59,522,745</u>	<u>0</u>	<u>0</u>		<u>59,522,745</u>	<u>0</u>	<u>0</u>

BANKING DEPARTMENT.

	£	s.	d.		£	s.	d.
Proprietors' Capital	14,553,000	0	0	Government Se-			
Rest . . .	3,175,972	0	0	curities . . .	17,873,939	0	0
Public Deposits (in-				Other Securities .	30,561,205	0	0
cluding Ex-				Notes . . .	31,820,705	0	0
chequer, Savings				Gold and Silver			
Banks, Commis-				Coin . . .	1,316,176	0	0
sioners of Na-							
tional Debt, and							
Dividends Ac-							
counts) . . .	27,533,503	0	0				
Other Deposits .	36,284,942	0	0				
Seven Day and other							
Bills . . .	24,608	0	0				
	<u>81,572,025</u>	<u>0</u>	<u>0</u>		<u>81,572,025</u>	<u>0</u>	<u>0</u>

Dated the 16th day of June, 1910,

J. G. NAIRNE, *Chief Cashier.*

From the figures relating to the Issue Department it is seen that notes have been issued for £59,522,745 against Government Debt, Other Securities, and Gold Coin and Bullion.

Of the total notes issued, £31,820,705 are held by the Banking Department, so that the active note circulation is £27,702,040.

In the account of the Banking Department, Rest means reserve, and is the accumulation of the Bank's profits, out of which dividends are paid to the proprietors.

Public Deposits consist of moneys deposited by Government Departments.

Other Deposits are deposits made by the ordinary customers of the Bank.

Seven Day and other Bills are Bank post bills, which are issued by the Bank for any sum between £10 and £1000 upon deposit of the required amount. They are payable to order at seven days, or sixty days after sight, at the Bank or any of its branches, and no charge is made for issuing them.

Q. What is a Letter of Credit ?

A. A Letter of Credit is a letter of authority to a correspondent to hold a stated sum at the disposal of the person named in the letter, and to draw upon the grantor for a certain sum. A specimen signature is usually sent to enable the correspondent to identify the payee.

Q. What is a Marginal Letter of Credit ?

A. A Marginal Letter of Credit is similar to an ordinary Letter of Credit, except that the authority to draw, and the conditions are on the margin of the form of bill to be used in drawing on the grantor.

Q. What are Circular Notes ?

A. Circular Notes are instruments of credit issued for the use and convenience of travellers in foreign countries. They are accompanied by a letter of indication, bearing the signature of the person to whom it is issued, in addition to that of the grantors, and addressed to the agents of the grantors, requesting them to cash notes for the grantee on his signing the order endorsed thereon. The letter of indication usually states the number and amount of notes issued.

CHAPTER XLIV.

BANKING—*continued.*

Principal sources of profit of bankers—Connection of banking with trade of the country—How to choose a Bank—How banking accounts are opened by individuals and by Joint Stock Companies—A banker's duties to his customers—Cheques—Forged cheques—Forged endorsements: special protection to paying bankers afforded by Bills of Exchange Act—Position of collecting banker—Forms of endorsement—Procurator endorsements—Abbreviations used by bankers—Duty of a banker on death or bankruptcy of a customer—Discounting bills—Points for consideration—Difference between an advance on Loan Account and an overdraft—Forms of security accepted by bankers—Special points in connection with each—Collateral security—Meaning and effect of banker's lien.

Q. What are the principal sources of a banker's profits?

A. A banker's profits are derived principally as follows:—

1. By receiving deposits of money at a lower rate of interest than that charged by him for loans.
2. By lending out at interest or investing a proportion of the balances on current accounts for which he pays no interest.
3. By lending and charging interest on credits based upon his ability to pay in gold if and when called upon to do so.

The greater part of the banker's resources is used in discounting bills and granting loans, but such transactions do not necessarily require him to part with gold. What he does is to lend credit, which under modern conditions of commerce serves the same purpose as gold.

Q. What is the connection of banking with the trade of the country?

A. Banking is so closely connected with the trade of the country that the one is largely dependent upon the other. Without the services of bankers it would be impossible to carry

on the trade of the country under existing conditions, for the reason that the bulk of trade is conducted by means of credits and instruments of credit which form the subject of banking operations. The services of bankers to trade are chiefly rendered by granting loans and credits, discounting bills, issuing drafts and notes, collecting cheques, bills, etc., and rendering facilities for remitting money to foreign countries.

Q. In choosing a Bank, what points should an intending customer consider ?

A. In choosing a Bank for the purpose of opening a Current or Deposit Account, an intending customer should obtain and carefully examine a copy of the last Balance-Sheet of the Bank.

The first point to consider is whether the paid-up capital, reserves, and balance of profit are sufficient to provide a reasonable margin for unexpected losses on realization of assets, because in the event of liquidation the customers would not suffer loss unless the deficiency exceeded the amount of capital, reserves, and profit.

The amount due to customers on Current and Deposit and other Accounts should next be ascertained from the liabilities side of the Balance-Sheet. The total of these accounts should be compared with the total of the following items on the assets side, viz. Cash in hand, Cash at Bank of England, Money at Call or Short Notice, British Government and Colonial Securities, which should amount to nearly two-fifths of the total amount due to customers on Current, Deposit, and other Accounts.

The large item on each side of the Balance-Sheet, viz. Liabilities of Customers for Acceptances as per contra, may be disregarded in considering the points above mentioned.

A further test is to see that the total cash in hand and at the Bank of England is not less than 15 per cent. of the total liabilities to the public, on Current, Deposit, and other accounts.

Q. What formalities attend the opening of a banking account—

(a) by individuals ;

(b) by Joint Stock Companies ?

A. (a) It is usual for individuals to be properly introduced to the Bank manager, who will require a specimen of his usual signature. The customer pays in to his credit the desired amount, and forthwith receives a cheque book and paying in book.

(b) In the case of Joint Stock Companies, before the account

is opened the bank will require formal resolutions to be duly passed at a meeting of directors to the effect that the bank be appointed the bankers of the Company, and authorizing the bank to honour all cheques drawn on the Company's account and signed by any two or more directors (as the case may be) and countersigned by the Secretary, and to honour all bills accepted on behalf of the Company by the persons named, etc. Most banks have their own printed forms of resolutions, which are passed and entered on the minutes. A certified copy is sent to the Bank, with specimens of the signatures of the persons authorized to sign cheques, etc.

Q. What is a Bank pass book?

A. A Bank pass book is a book which passes from time to time between banker and customer, and in which the banker enters a record of the amounts paid into the Bank and withdrawn by the customer. The pass book should be regularly checked by the customer, to avoid errors.

Q. Are the entries in a Bank pass book binding upon the banker or customer?

A. The entries are *primâ facie* binding upon the banker, but he is not prevented from rectifying a mistake unless it can be shown that the customer has acted in good faith upon the assumption that the entries were correct.

A customer may also be bound by erroneous entries if he fails to detect them.

Q. What are a banker's duties to his customers?

A. A banker's duties to his customers depend upon the relationship existing between them.

The ordinary relation is that of debtor and creditor, in which case the banker's duties are to comply with the directions of his customers with regard to the repayment of moneys deposited with him.

Another relation is that of principal and agent, the banker acting as agent when collecting bills, cheques, etc., for his customer. In such a case the banker's duty is to act within the scope of his authority, which may be general or special. A general authority is to do what is customary in the circumstances; a special authority is to carry out express instructions.

A banker may act as trustee for his customers by taking charge of bonds, and detaching and collecting coupons. The banker collects as agent, and holds the securities as trustee, his duty being to comply strictly with the terms of the trust, and

to refrain from exercising any proprietary rights over the securities.

A banker may be a gratuitous bailee by taking charge of articles of value, such as jewels, the property of his customers, in which case his duty is to exercise ordinary and reasonable care in dealing with the property.

Q. When a customer pays money to a banker on current account, what undertakings on the part of the banker are implied?

A. There is an implied contract on the part of the banker—

- (1) To honour cheques drawn on the account.
- (2) To pay all cheques, bills, etc., to the persons named therein, or to the transferees, except in the case of instruments payable to bearer.

Q. What is the position of a banker who pays money contrary to the directions of his customer through error, misrepresentation, or fraud?

A. In such a case the banker is liable to his customer for the amount, except in cases where he is specially protected by statute.

Q. If a banker dishonours a customer's cheque, what are the rights of the holder?

A. A banker is not liable to third parties, but only to his customer. The holder, therefore, has no right against the banker, but must claim through the customer.

Q. What is the position of a banker who (a) pays a forged cheque, (b) pays a post-dated cheque, (c) pays a bill before its due date?

A. If a banker pays a forged cheque, he cannot debit his customer with the amount, as he is expected to know the signatures of his customers.

A banker may pay a post-dated cheque or an unmatured bill, but cannot debit his customer until the due date arrives.

Q. What special protection is afforded to a banker paying cheques drawn on himself?

A. By sect. 60 of the Bills of Exchange Act, 1882, a banker is protected from the legal consequences of paying a cheque bearing a forged or unauthorized endorsement. The endorsement must, however, purport to be correct on the face of it, and devoid of any apparent irregularity.

Q. What is the position of the banker who collects the amount of a cheque bearing a forged or unauthorized endorsement?

A. The collecting banker may be required to repay the money, unless it can be shown that the cheque was crossed generally or specially to himself when it came into his hands, and was collected for a regular customer. In such case, the person for whom the money was collected would be liable to repay it.

Q. How should cheques drawn as follows be endorsed?—

- (1) *A. Black, Esq.*; (2) *Mr. Alfred Black*; (3) *Mrs. Alfred Black*; (4) *Dr. A. Black*; (5) *Messrs. White*; (6) *Miss E. Brown, now married to Mr. Wilson.*

A. Endorsements—

- (1) *A. Black*; (2) *A. Black*; (3) *E. Black, wife of Alfred Black*; (4) *A Black, or A. Black, M.D.*; (5) *White Bros., or White and Son, or W. and M. White or Whites*; (6) *E. Wilson, née Brown.*

Q. How should an illiterate person endorse a cheque?

A. An illiterate person should make his mark in the presence of a witness, who should sign his name and add his address, thus—

his
Arthur x Brown
mark
Witness: James Thomson,
12, Wells Street,
London, E.C.

Q. How should a cheque in favour of a deceased person be endorsed?

A. Such a cheque may be endorsed by the payee's legal personal representatives. Any one executor or administrator can give a good discharge. Examples—

For W. Deakin,
A. Bryant, an executor;
or For self and co-executors of W. Deakin,
A. Bryant.

In the case of trustees, however, all must join in the endorsement, thus—

For W. Deakin,
A. Bryant } Trustees.
M. Wood }

Q. How should a cheque in favour of a joint stock company be endorsed?

A. For the X Company, Limited,
A. Murdock,
Secretary.

Q. What is a Procuration Endorsement?

A. A Procuration Endorsement is an authorized endorsement by one person of the name of another person. A procuration endorsement is prefixed by "per pro" or "p. p.," and the person signing must give his full ordinary signature. A banker may require confirmation of a per pro signature, if considered desirable.

Q. Is the following endorsement in order?—

*Per pro The B. A. C., Limited,
per pro Arthur Peek, Secretary.
Walter Mead.*

A. Such an endorsement would not be in order, as the holder of a procuration cannot as a rule delegate his authority to another. The endorsement

*Per pro The B. A. C., Limited,
Arthur Peek, Secretary.*

would be in order.

Q. A. Black pays to the credit of his account a cheque drawn in favour of A. Brown & Co., and endorsed:

*Per pro A. Brown & Co.
A. Black.
A. Black.*

What is the duty of the banker?

A. A per procuration signature is notice of limited authority, and the banker's duty is to obtain A. Brown & Co.'s authority to credit the proceeds to A. Black, who *prima facie* has only been authorised to sign on behalf of A. Brown & Co., and not to apply the proceeds to his own use.

Q. What are the meanings of the following abbreviations appearing on cheques: R/D. N/S. "Effects not cleared." "No effects." "Drawer deceased." "Words and figures differ." "Payment stopped?"

A. R/D means "refer to drawer," and indicates that the cheque is dishonoured.

N/S means "not sufficient," and indicates that the drawer has not sufficient funds at the bank to meet the cheque.

"Effects not cleared" means that the drawer has paid into the bank sufficient to meet the cheque, but some of the cheques, etc., paid in are not yet cleared. The words may be regarded as an intimation to present the cheque again.

"No effects" means that the cheque is returned owing to want of funds standing to the credit of the customer's account.

"Drawer deceased" signifies that the banker has received notice of the customer's death. Cheques may be paid by a banker after the death of a customer but before notice thereof is received. After the receipt of notice the banker must not pay. This does not apply to cheques signed by a deceased partner in the firm's name, nor does the death of a treasurer affect cheques drawn by him officially.

When "words and figures differ" the banker may pay the amount expressed in words, but it is usual to return the cheque for confirmation and correction.

"Payment stopped" is a notification that the drawer of a cheque has exercised his right to stop payment. After instructions not to pay, the banker is responsible for any loss if he pays.

Q. What is the duty of a banker in the event of the bankruptcy of his customer?

A. When a banker receives notice that his customer has committed an act of bankruptcy his duty is to cease to pay the customer's cheques. An act of bankruptcy is one of several acts upon which a petition for a Receiving Order in Bankruptcy may be founded.

Q. In discounting bills what points require consideration by the banker?

A. The following matters require consideration:—

- (1) That the customer's account and financial standing are such as to justify the transaction.
- (2) That the bills are properly drawn, signed, and stamped.
- (3) That the bills have been drawn and accepted for value in the ordinary course of business, and that the acceptor is likely to meet the bill.

As most bills are accepted payable at a bank the discounting banker can, if necessary, make inquiries through such Bank as to the financial standing of the acceptor.

Q. What is the difference between an advance on Loan Account and an overdraft on Current Account?

A. In the case of a loan a separate account is opened by the banker and debited with the amount of the loan, current account being credited. The customer pays interest on the amount standing to the debit of Loan Account, no account being taken of the amount standing to the credit of his Current Account.

In the case of an overdraft the customer pays interest on the debit balance on Current Account, such interest being charged periodically. In this case, therefore, the customer pays interest only on the actual amount of the accommodation. The rate of interest for over-drafts is usually higher than the rate for loans.

Q. What forms of security for loans are usually accepted by bankers?

A. The most usual forms of security are—

- (1) First-class Stock Exchange securities.
- (2) Title deeds to property.
- (3) Documents of title to goods, *e.g.* bills of lading, dock warrants, etc.
- (4) Guarantees.
- (5) Life insurance policies.

State the special points to be considered in connection with each of these classes of securities.

A. (1) A banker may acquire either a legal or an equitable title to shares, etc., deposited with him. To acquire a legal title they must be transferred to the bank or its nominee, but sometimes an equitable title is regarded as sufficient. This may be evidenced by a memorandum of deposit with an undertaking to execute a transfer if and when required. A legal title has priority over an equitable title, and the former is therefore preferable.

(2) Title deeds should remain in the possession of a banker by way of equitable mortgage secured by a memorandum of charge. Before the loan is granted the deeds should be examined by a solicitor to see that they are in order, and if there is a doubt as to value the property should be valued by a valuer. In making advances on leaseholds, depreciation must be allowed for. The following vouchers should be produced to the banker from time to time—the receipts for the

ground rent of leasehold properties and the receipts for premiums on fire insurance policies.

(3) Documents of title to goods should comprise all the copies, and in the case of bills of lading a copy of the invoice should be attached; also the marine insurance policy. To complete the bank's title the documents should be endorsed in its favour.

(4) Guarantees, if accepted, should cover both present and future indebtedness. If several persons unite in a guarantee it may be joint or several, or both joint and several. If it is a joint guarantee the guarantors must all be sued together, but if it is a several liability they may each be sued separately; if it is both joint and several the banker may sue in whichever way he may think fit. If a guarantor gives notice of his desire to be relieved from liability the account should be at once stopped until fresh arrangements are made.

(5) Loans on life policies should not exceed their surrender value. They should be pledged by a deed duly stamped, and notice of their deposit should be given to the Insurance Company, which should be asked to send to the bank duplicates of any notices received by the Company affecting the policies. The banker should see the receipts for the premiums from time to time as they are paid.

Q. What is meant by the term "Collateral Security"?

A. Collateral Security is property belonging to some person other than the debtor, and deposited by such person to secure the repayment of the amount of the debt.

Q. In the event of the bankruptcy of the debtor, what is the position of the banker, (a) as regards securities deposited by the debtor, and (b) as regards collateral securities?

A. The banker may realize the securities, and as regards those deposited by the debtor he must give credit for the amount realized when proving against the estate in bankruptcy. As regards the collateral securities, the banker is entitled to retain the amount until he has received payment in full from the bankrupt's estate, failing which he is entitled to retain so much of the amount as is required to make up the deficiency.

Explain the meaning and extent of a banker's lien.

A. A lien is a right to retain possession of documents or property until the possessor's claim against the owner has been discharged. Bankers have a general lien over all securities which come into their possession as bankers, e.g. bills, cheques,

etc., received for collection. This general lien may, however, be defeated by a special lien, as where a customer deposits property as specific security for a particular loan, in which case the customer becomes entitled to the return of the property when the loan has been repaid, regardless of the state of other accounts between the banker and customer. It is doubtful whether a banker's lien extends to securities held by him for safe custody and which are not in his possession as banker.

CHAPTER XLV.

Bank Book-keeping—Outlines of—Principal books required—Cash Received Book—Cash Articles Analysis Book—Sectional Cash Books—In and out clearings—Use of docket for original records—Coin Balance Book—General Ledger—Private Ledger—Loans Ledger—Deposits Ledger—Investments Ledger—Agency Ledger—Bills Discounted Book—Short Bills Book—Securities Book—Standing Orders Book—Form of Bank Balance-Sheet and Profit and Loss Account—Rebate on bills not due—Acceptances for customers—Mechanism of Banker's Clearing House—Statutory statement to be issued half-yearly by bankers.

Give the outlines of a system of Bank Book-keeping.

A. The system of book-keeping adopted by Banks varies as regards details, but the nature of the transactions to be recorded and the general principles involved are invariably the same. These transactions relate to dealings in cash and credits affecting Current Accounts, Deposit Accounts, Loan Accounts, Bills Receivable and Bills Payable Accounts, Investment Accounts, etc. The records will therefore relate chiefly to cash and credits received, and cash and credits parted with. There will also be records of charges for interest, expenses, etc., and allowances of interest.

The principal books required are: Signature Book, Cash Received Books, Cash Paid Books, General Cash Book, Coin Balance Book, Cash Articles Analysis Book, Goldsmith's Book, Bills Receivable and Bills Payable Books, Sectional Cash Books, Journal, Private Ledger, General or Check Ledger, Customers' Ledgers, Loans Ledger, Deposit Ledger, Investments Ledger, Agency Ledger. One of the special features of Bank Book-keeping is the use of slips or dockets for the purpose of making original records of transactions.

When a customer pays cash, cheques, etc., into the Bank, particulars are entered on a paying-in slip, which is handed to the cashier, who will enter the particulars in the Cash Received Book, which may be ruled thus—

[illegible]

The coin goes into the till, the bank-notes are sorted, entered in the Goldsmith's Book, and finally paid into the Bank of England. The drafts with the paying-in slip are passed on to a clerk, who sorts them and enters the items in the Cash Articles Analysis Book, which may be ruled thus—

Name.	Total.	House.	Bank of England.	Town Clearing.	Metropolitan Clearing.	Country Clearing.	Branches and Sundries.
1	2	3	4	5	6	7	8

The drafts detailed in column 3 are passed for entry in the Paid Cash Book, and for debit to the drawers' accounts. These are cheques drawn by customers in favour of other customers at the same Bank, the ultimate entries being that the drawers are debited and the payees are credited.

Items in column 4 are entered in the Goldsmith's Book and paid into the Bank of England. These are drafts on the Bank of England, which are not sent to the Clearing House, but are paid into the Bank.

Drafts detailed in columns 5, 6, and 7 are entered in separate books for the respective clearings. Lists of the drafts are made out, and they are sent either to the head office or direct to the Clearing House.

Items in column 8 are sent to the head office of the Bank.

The total column of the Cash Articles Analysis Book should agree with the total of the drafts column of the Cash Received Book.

After the paying-in slip has been entered in the Analysis Book, it is passed on to another clerk, who enters the total amount in a Sectional Cash Book, which may be ruled thus—

This Ledger is written up continuously.

Any charges for collecting drafts are debited to the customers' accounts and credited to other accounts by means of slips or dockets, which, like the paying in slips and cheques, are passed through the Sectional Cash Books.

The General or Check Ledger contains total accounts of all entries in the other Ledgers, viz. Total Current Accounts, Total Depositors' Accounts, Total Bills Receivable and Total Bills Payable Accounts, Total Loans Accounts, and Totals of Expenses and Revenue Accounts. The Ledger is self-balancing, and contains the materials for preparing a Trial Balance, Profit and Loss Account, and Balance-Sheet of the Bank.

The Private or Profit and Loss Ledger contains Capital Accounts, and real and nominal accounts. The Loans Ledger contains a separate account for each customer to whom a loan has been granted, the rate of interest, the date of repayment, securities lodged, etc., being recorded therein. The Deposit Ledger contains an account with each depositor. Transfers from Deposit or Loan Accounts to and from Current Accounts are made by means of dockets. These dockets are also entered in the Sectional Cash Books. The Investments Ledger contains a separate account for each investment. The Agency Ledger is kept on the same principles as an ordinary Branch Ledger. The Bills Discounted or Bills Receivable Book contains in columnar form particulars of all bills discounted by the Bank, and the rate of interest charged, the number of days the bill has to run, the amount of interest charged on each bill. Each day dockets are made out for the purpose of—

1. Debiting Bills Discounted Account in General Ledger with the amount of all bills discounted, and crediting each customer in the Customers' Ledger.
2. Debiting each customer with the amount of interest charged, and crediting Interest Account in the General Ledger.

As the bills mature, the Bills Discounted Account is credited, and the balance of the account, therefore, represents the total face value of bills on hand.

A Short Bills Book is kept to record bills deposited by customers for collection; as cash is received the customers' accounts are credited. The Securities Book contains a record of all securities held by the Bank as security for loans. The Standing Orders Book contains a record of instructions received from customers as to periodical and other payments.

The following is a form of Bank Balance-Sheet and Profit and Loss Account :—

BANK BALANCE-SHEET

LONDON COUNTY AND WESTMINSTER BANK, LIMITED.
BALANCE-SHEET, DECEMBER 31, 1909.

LIABILITIES.			ASSETS.		
Capital—	£	s. d.	Cash—	£	s. d.
700,000 Shares of £20 each	14 000,000		In hand and at Bank of England	12,533,244	7 4
693,577 Shares issued £5 paid thereon	3,467,885		At Call and Short Notice	11,564,929	1 6
6,423 Shares allotted to but not yet taken up by the London and Westminster Bank Shareholders and outstanding fractions in respect of which £5 per share is in hand			Bills discounted		8 10
700,000	32,115		Investments—	12,524,853	3 7
Reserve			Consols (of which £1,352,000 is lodged for Public Accounts), and other Securities of, or guaranteed by, the British Government		
Current and Deposit Accounts		0 0	Indian Government Stock, and Indian Government Guaranteed Railway Stocks and Debentures	7,930,252	19 1
Circular Notes, Letters of Credit, Commission Loans, and other Accounts, including provision for Contingencies		0 0	Colonial Government Securities, British Corporation Stocks, and British Railway Debenture Stocks	990,933	4 8
Acceptances for Customers	1,660,461	0 9	Other Investments	1,736,240	0 10
Liability by Endorsement (Bills negotiated for Customers)	3,589,770	19 4	Advances to Customers and other Accounts	331,660	15 10
Contingent Liability on Endorsements	45,717	0 6	Liability of Customers for Acceptances, as per contra		
			Liability of Customers for Endorsement, as per contra		
Rebate on Bills not due	52,869	19 4	Bank and other Premises (at cost, less amounts written off)	45,717	0 6
Profit and Loss Balance, as below	497,787	19 9		1,558,763	0 2
				83,794,456	18 6
	83,794,456	18 6			

BANK PROFIT AND LOSS ACCOUNT

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PROFIT AND LOSS ACCOUNT.

	Dr.	Cr.
To Interest paid to Customers		
" Salaries and all other Expenses, including Income Tax and Auditors' and Directors' Remuneration		
" Rebate-on Bills not due carried to New Account		
" Interim Dividend for Half-year ended to June 30, at 20 per cent. per annum		
" Depreciation in Investments		
" Bank Premises Account		
" Dividend for Half-year ended December 31, at 20 per cent. per annum		
" Balance carried forward		
	£	s. d.
	352,999	1 10
	908,220	11 0
	52,869	19 4
	280,000	0 0
	50,000	0 0
	50,000	0 0
	497,787	19 9
	2,139,877	14 11

Explain the item, "Rebate on Bills not due, £52,869 19s. 4d.," which appears in both the Balance-Sheet and Profit and Loss Account.

A. The item represents the proportion of interest for the unexpired term of bills discounted and in hand at the date of the Balance-Sheet. When the Bank discounts a bill of exchange the amount of discount is debited to the customer and credited to Discount Account. At balancing-time the proportion of discount which relates to the ensuing period is ascertained and debited to Profit and Loss Account, and credited to a new account, the amount being shown as an item on the liabilities side of the Balance-Sheet.

Explain the items, "Acceptances for Customers" and "Liability of Customers for Acceptances, £3,589,770 19s. 4d.," on the Dr. and Cr. sides of the Balance-Sheet respectively.

A. This amount represents the Bank's liability on bills accepted by the Bank for account of its customers, against whom the Bank will have a corresponding claim as and when the bills fall due. The Bank's liability and contra claim against its customers are shown in the Balance-Sheet.

Explain the bracketed note under Investments, viz. "Consols (of which £1,352,000 is lodged for Public Accounts)."

A. The note means that of the securities belonging to the Bank £1,352,000 in Consols has been allocated as security to public bodies for amounts due to them by the Bank on current and other accounts, and that the investments to the extent of £1,352,000 are not available for other purposes.

Give an outline of the mechanism of the Bankers' Clearing House.

A. The mechanism of the Bankers' Clearing House is as follows:—

Each Bank makes out a list of cheques on each of the clearing bankers, who, by the rules of the Clearing House, must keep a current account at the Bank of England. These lists, with the cheques, are delivered to representatives of the respective Banks to which the lists relate, and other lists are received in exchange. Each representative then takes the lists he has received, with the cheques, to his Bank, to see that the cheques are in order, and each Bank is allowed until 5 p.m. to decide whether the cheques will be honoured. If by that time no cheque is returned, the banker is responsible for payment to the Clearing House.

When the cheques have been examined and passed, a sheet, called a Summary Sheet, is prepared. This Sheet consists of a list of the clearing Banks, each Bank having its own printed form with its name printed at the head, the names of the other clearing bankers being printed in alphabetical order. The sheet contains a debit and a credit column, and opposite the names of the clearing bankers is entered the amount due to or from each Bank by or to the Bank on behalf of which the sheet has been made out. The money columns are added, and a general balance is struck, showing the total amount which is to be received from, or to be paid to, the Clearing House by the Bank which prepares the sheet.

In addition to the Current Account of each clearing banker, there is kept at the Bank of England an account called the "Clearing Bankers' Account." All cheques received from the clearing bankers are paid to the credit of this account, and all amounts due to the clearing bankers are paid by cheques drawn on the same account. Therefore, as all the balances due to and from the clearing bankers are mutual, the Clearing Bankers' Account is automatically closed when all the accounts have been settled.

The following Summary Sheets for Banks A, B, C, D show the principles upon which the clearing is effected:—

"A." BANK.

	DR.			CR.		
	£	s.	d.	£	s.	d.
"B." Bank	50	0	0	120	0	0
"C." "	80	0	0	70	0	0
"D." "	120	0	0	30	0	0
	250	0	0	220	0	0
Balance				30	0	0
	250	0	0	250	0	0

"A." receives a ticket for the transfer of £30 from the Clearing Bankers' Account to the credit of "A.'s" current account at the Bank of England.

BANKERS' CLEARING HOUSE

"B." BANK.

	DR.			CR.		
	£	s.	d.	£	s.	d.
"A." Bank . . .	100	0	0	50	0	0
"C." " . . .	60	0	0	20	0	0
"D." " . . .	12	0	0	80	0	0
	172	0	0	150	0	0
Balance . . .				22	0	0
	172	0	0	172	0	0

"B." receives a ticket for the transfer of £22 from the Clearing Bankers' Account to the credit of "B.'s" current account.

"C." BANK.

	DR.			CR.		
	£	s.	d.	£	s.	d.
"A." Bank . . .	90	0	0	80	0	0
"B." " . . .	20	0	0	60	0	0
"D." " . . .	40	0	0	70	0	0
	150	0	0	210	0	0
Balance . . .	60	0	0			
	210	0	0	210	0	0

"C." issues a ticket for the transfer of £60 from its current account to the credit of the Clearing Bankers' Account.

"D." BANK.

	DR.			CR.		
	£	s.	d.	£	s.	d.
"A." Bank . . .	30	0	0	120	0	0
"B." " . . .	80	0	0	12	0	0
"C." " . . .	70	0	0	40	0	0
	180	0	0	172	0	0
Balance . . .				8	0	0
	180	0	0	180	0	0

"D." receives a ticket for the transfer of £8 from the Clearing Bankers' Account to the credit of "D.'s" current account.

The Clearing Bankers' Account would, therefore, appear thus—

DR.				CLEARING BANKERS' ACCOUNT.				CR.			
	£	s.	d.					£	s.	d.	
To "A." Bank	30	0	0	By "C." Bank	60	0	0				
" "B." "	22	0	0								
" "D." "	8	0	0								
	60	0	0					60	0	0	
	<u> </u>	<u> </u>	<u> </u>					<u> </u>	<u> </u>	<u> </u>	

Q. What statutory statement is required of Banking Companies every half-year?

A. Sect. 108 of the Companies (Consolidation) Act, 1908, provides that every Company, being a Limited Banking Company or an Insurance Company, or a deposit, provident, or benefit society, shall, before it commences business, and also on the first Monday in February and the first Tuesday in August of every year during which it carries on business, make a statement in the following form, or as near thereto as circumstances will admit,—

* The share capital of the Company is £ , divided into shares of each.

The number of shares issued is .

Calls to the amount of £ per share have been made, under which the sum of £ has been received.

The liabilities of the Company on the first day of January (or July) were—

Debts owing to sundry persons by the Company—

On judgment, £

On specialty, £

On notes or bills, £

On simple contracts, £

On estimated liabilities, £

The assets of the Company on that day were—

Government securities (stating them).

Bills of Exchange and promissory notes, £

Cash at the bankers, £

Other securities, £

* If the Company has no share capital, the portion of the statement relating to capital and shares must be omitted.

The section also provides that a copy of the statement shall be put up in a conspicuous place in the registered office of the Company, and in every branch office or place where the business of the Company is carried on. Every member and every creditor of the Company shall be entitled to a copy of the statement upon payment of a sum not exceeding sixpence.

CHAPTER XLVI.

Book-keeping for Solicitors—Classification of transactions—Books required—Draft Bills—Completed Bills—Cash Book—Separation of trust moneys—Petty Cash Book—Imprest system—Ledgers—Trial Balance—Outstanding expenses—Profit and Loss Account and Balance-Sheet—Costs not delivered.

Give the outlines of a system of book-keeping for Solicitors.

A. The transactions to be recorded by Solicitors may be classified as follows :—

1. Services rendered to clients.
2. Receipts and payments on behalf of clients in the ordinary course of business.
3. Receipts and payments on office account.
4. Receipts and payments on Trust Accounts.

The principal books required are: Draft Bills, Bills Delivered Book, Journal, Cash Book, Petty Cash Book, and Ledger.

As services to clients form the chief work of the office, it is necessary to establish an efficient system of recording the nature of the services rendered to each client, and the charges to be made therefor. Various methods are adopted, amongst which the following has been found in practice to meet ordinary requirements.

Each partner and managing clerk keeps his own draft bills, which consist of loose sheets fastened together. The following form of sheet may be used:—

Name of Client :

[illegible]

From this book the amount of the bill will be posted to the debit of the client's account in the Ledger, and at the end of each period when the Profit and Loss Account is prepared, the totals of the columns headed Fees and Disbursements and Sundry Expenses will be credited to their respective Ledger Accounts. For this purpose a Journal entry should be made as follows :—

		DR.			CR.		
Date.	Sundry Clients Dr.	£	s.	d.	£	s.	d.
	To Fees Account						
	„ Disbursements Account						
	„ Office Expenses						
	For Fees and Disbursements, Post- ages and Sundries charged in Bills delivered						

The various clients having already been debited by postings from the Bills Delivered Book, the total debit in the above Journal entry will not require posting, but will be merely ticked.

The method of dealing with receipts and payments is an important part of the organization of the system of book-keeping. Although a system of separating clients' moneys from the firm's moneys is to be recommended, it is not always easy to carry out in practice. A convenient method is to keep two banking accounts, viz.—

(1) A General Account for—

- (a) Receipts and payments on behalf of clients in the ordinary course of a solicitor's business, such as rents and debts collected, money received for payment on completion of a purchase, etc.
 - (b) Receipts and payments on office account such as receipts on account of bills delivered, special fees, etc., and payments for rent, salaries, etc.
- (2) A Trust Account for all moneys received on terms which constitute a trust, such as where moneys are received and are to be retained and applied to specific purposes distinct from the ordinary course of a solicitor's business.

As regards those cases where solicitors are managing Trust Estates, a separate banking account and an entirely separate set of books should be kept for each Trust.

on the Trust Account, and will be entered in the special column on the Cr. side of the Cash Book, the items being posted to the debit of the clients' accounts in the Ledger.

As a considerable number of payments will be made out of office cash, an effective system of dealing with petty cash is necessary. The imprest system may be adopted with advantage, since it ensures a periodical examination of the payments and the regular writing up of Ledger Accounts. The following form is suggested :—

PETTY CASH-BOOK.

[illegible]

A cheque for the amount of imprest will be drawn upon General Account and debited to Petty Cash Account in the Ledger. All payments out of petty cash will be recorded in the Total Amount paid column, each voucher received being numbered, and the number inserted in the column provided therefor. In addition to the entry in Total column all payments on account of Trust Accounts will be entered in that column, and each item therein will be posted direct to the debit of the proper account in the Ledger. Similarly all disbursements on behalf of clients will be recorded in the Disbursements column, and each item therein will be entered in the draft bill, the number of which should be inserted against the item in the Petty Cash Book, to show that such entry has been made. Sundry office expenses will be recorded in their respective

columns, the totals of which will be periodically posted to the debit of accounts in the General Ledger in the manner herein-after described.

Periodically the Total Amount paid column will be checked with the vouchers, and after verification two cheques will be drawn in favour of the petty cashier, viz.—

- (1) One drawn upon the Trust Account, being for the exact amount disbursed in respect of Trust Accounts.
- (2) One drawn upon General Account, being for the exact amount paid on account of disbursements and office expenses.

Thus the original amount of imprest will be restored. The cheques for petty cash payments will be entered in the Cash Book on the credit side thus—

DR.						CR.					
Date.	Name.	On what Account.	Led. Fol.	Bank.		Date.	Name.	On what Account.	Led. Fol.	Bank.	
				General Account.	Trust Account.					General Account.	Trust Account.
				£ s. d.	£ s. d.	1910.				£ s. d.	£ s. d.
						Jun. 30	Petty Cash Payments				
							Sundries				19 10 0
						"	Ditto Disbursements			12 15 0	
						"	Ditto Station'y			3 4 0	
						"	Ditto Postages			4 10 0	
						"	Ditto Salaries			42 0 0	

The items relating to Trust Accounts having been posted direct from the Petty Cash Book, the entry in the Cash Book will be merely ticked. The Cash Book entries relating to disbursements and office expenses will be posted from the Cash Book to the debit of their respective Ledger Accounts.

The Ledger will be divided into two books, viz.—

- (1) Private Ledger, for Capital Accounts, Partners' Drawing Accounts, Nominal and Real Accounts.
- (2) General or Clients' Ledger, for all personal accounts with clients.

At balancing-time a Trial Balance will first be prepared by abstracting the balances of all accounts in both Ledgers, and inserting the Bank balances as per Cash Book. (The Petty Cash in hand will be the amount of imprest debited to petty cash Account, and therefore included in the Private Ledger

balances.) Outstanding expenses will be brought to account by Journal entries debiting the expense accounts in the Private Ledger and crediting the accounts with the persons to whom the amounts are owing, and Profit and Loss Account and Balance-Sheet will then be prepared by the usual methods.

The debit balance on Disbursements Accounts will appear as an asset in the Balance-Sheet.

The amount of costs on undelivered bills should strictly be brought to account by crediting Fees Account with the estimated value thereof, and carrying the amount forward as a debit on the account for the next period—meanwhile showing the item on the assets side of the Balance-Sheet as Costs not delivered. Many solicitors prefer, however, to omit the item altogether from their annual accounts.

CHAPTER XLVII.

Executorship Accounts—Definition of Executor, Administrator, Trustee—Estate Duty Accounts—Executor's books and accounts—Treatment of unrealized stocks and shares—Opening the books—Profits and losses on sales of investments—Provisions of Apportionment Act, 1870—How applicable to rents and dividends—Example of Executors' Accounts—Residuary Account—Apportionment Account—Investment Account—Account in Administration suit.

Q. What are Executorship Accounts?

A. Executorship Accounts are accounts recording the realization, distribution and administration of the estate of a deceased person by his Executors or Administrators.

Define the terms: "Executor," "Administrator," "Trustee."

A. An executor is a person who is appointed by a will to carry out the wishes of a deceased person with regard to the disposal of his property. An executor derives his authority from the will.

An administrator is a person appointed by the Court.

(a) to administer the estate of a person who dies without leaving a will, or

(b) to administer the estate of a person who dies leaving a will without naming his executors, or where the executors named cannot act.

An administrator derives his authority from the Court and distributes the estate according to the law relating to the estates of intestates, unless he is appointed to carry out the terms of a will.

A trustee is a person who holds property in trust for the benefit of other persons.

An executor becomes a trustee as soon as any part of the estate is set aside and held by him in trust for the benefit of some person or persons.

Q. What is an Estate Duty Account?

A. An Estate Duty Account is an account of the total net

value of both personal and real property of which the deceased died possessed, and is rendered to the Inland Revenue authorities in order that the amount of Estate Duty may be assessed. The account must be in the prescribed form which is divided into sections, viz. :—

Account No. 1—

Part 1. Personal Property situate in the United Kingdom.

Part 2. Real Property situate in England.

Account No. 2—

Personal Property situate abroad which is neither saleable nor transferable in the United Kingdom.

Account No. 3—

(a) Personal Property other than that in Accounts Nos. 1 and 2 of which the deceased at the time of his death was competent to dispose, but of which he did not dispose.

(b) Money which the deceased had, at the time of his death, a general power to charge on real property, whether the power was exercised or not.

Account No. 4—

Personal Property including leaseholds in which the deceased had less than an absolute interest.

Account No. 5—

Real Property whereon Estate Duty is elected to be paid on delivery of the Account.

Schedules are also provided for particulars of funeral expenses, debts, and encumbrances.

The Account is prepared from an inventory of the property, and the services of valuers are sought, where necessary, to assess values.

Q. What books and accounts should be kept by executors and trustees?

A. The books required are Journal, Cash Book and Ledger. A petty Cash Book may also be required, and, where necessary, a Rent Roll.

The principal accounts are—

Cash Account (kept in the Cash Book).

Estate Account.

Income Account.

Testamentary Expenses.

Funeral Expenses.

Debts due at date of death.

Legacies

An account for each investment.

Executorship Expenses.

An account for each Annuitant.

The Cash Book and Ledger Accounts should be ruled with two cash columns on each side, the first being for income, and the second for capital items.

Q. How should unrealized stocks and shares forming part of the general estate be recorded in the books?

A. It is advisable to open separate accounts for each investment, and debit such accounts with the values according to the Estate Duty Account and Credit the Estate Account. The alternative method is to prepare a list of the investments and make no effective entries in the books of account except such as are necessary to record actual cash receipts and payments. This method is not recommended in view of the fact that executors and trustees are accountable for all assets which come into their possession or control—whether cash, securities, or other property.

Q. Upon what information are the executorship books opened?

A. As soon as the Estate Duty Account has been passed and probate of the will has been granted the executors will be in a position to deal with the property of the deceased. The assets and liabilities detailed in the Estate Duty Account will form the subject of Journal entries, of which the following are examples:—

JOURNAL.

	£	s.	d.	£	s.	d.
Sundries Dr.						
To Estate Account				7505	0	0
Cash in the House	15	0	0			
Cash at Bank	720	0	0			
Consolidated Stock 2½%	2500	0	0			
Manchester Corporation Stock	1200	0	0			
Loan on Mortgage	2000	0	0			
Interest thereon to date of Death	15	0	0			
Leasehold Property	600	0	0			
Rents accrued	5	0	0			
Household Property	450	0	0			
For Assets at date of Death as per						
Estate Duty Account						
Estate Account Dr.	76	0	0			
To Sundries—						
Debts due at date of Death				45	0	0
Funeral Expenses				31	0	0
Liabilities at date of Death as per						
Estate Duty Account						

Q. When investments are sold and realize more or less than the Estate Duty figure, how is the difference dealt with ?

A. Where such transactions are frequent, it is advisable to open an account called Profits and Losses on Sales of Investments, and debit it with losses and credit it with profits, the corresponding entries being in the Investment Accounts. When preparing the Executors' Accounts at the end of the year the balance of the Profit and Loss Account will be transferred to the debit or credit of Estate Account, as such profits or losses affect capital and not income.

Q. What are the provisions of the Apportionment Act, 1870 ?

A. The Apportionment Act, 1870, provides that all rents, annuities, dividends, and other periodical payments in the nature of income shall, like interest on money lent, be considered as accruing from day to day, and shall be apportionable in respect of time accordingly. Partnership profits, and profits from the voyage of a single ship privately owned, are not apportionable.

Q. How should the following items be dealt with by the executors : rents, dividends on shares ?

A. The proportion of rent due to date of death will have been shown as a separate item in the Estate Duty Account, and is capital and not income. The proportion of rent accrued after death is income.

Shares quoted ex dividend at the date of death will be included in the Estate Duty Account at the Market price, and the proportion of dividend accrued will be included as an additional item, such proportion when received being capital.

Shares quoted cum dividend will be included in the Estate Duty Account at the Market price, and the proportion of dividend accrued to date of death will be capital, and when received will be credited to the Investment Account, the capital value of the investment being thereby reduced.

As a rule, only the first dividend received needs apportioning, but when an interim dividend is paid and subsequently a final dividend at a higher rate is received, capital will be entitled to its proper proportion of the whole year's dividend for the period prior to death. When, however, the final dividend is at a rate lower than the interim dividend, capital is not to be disturbed.

Preference dividends in arrear, if paid out of the balance of Profit and Loss at the date of death are capital, but, if paid out of subsequent earnings, are income.

No apportionment is necessary when stocks and shares are bought and sold by trustees cum dividend.

John Wilkins died on August 1, 1905. His estate, as declared for probate, was as follows:—

	£	s.	d.
Cash in House	30	0	0
Cash at Bankers, Current Account, including Interest on deposit to date of Death	865	0	0
Cash on Deposit with Bankers	1500	0	0
Household Furniture	700	0	0
Horse and Carriage, etc.	250	0	0
Freehold Property	5000	0	0
Loan on Mortgage at 4%	2000	0	0
(Interest payable half-yearly, 1st April and 1st October.)			
£8000 Great Southern Railway 4% Debenture Stock	10,000	0	0
(Interest payable half-yearly, 1st January and 1st July.)			

The rents of the freehold property amounted to £360 per annum, and were payable quarterly on January 1, April 1, July 1, and October 1.

All interest and rents were received when due.

The household furniture, horse and carriage, etc., and cash on deposit at bankers, were left to the widow absolutely.

Sundry debts due by the deceased, amounting to £150, and Funeral Expenses £30, were paid on September 1, 1905.

Estate duty was paid on December 1, 1905—

	£	s.	d.
On Personalty	610	0	0
Interest thereon	18	0	0
On Realty	200	0	0

Testamentary expenses, £172, were paid January 1, 1906.

The widow was entitled to the income for life.

Open the books, and write up the accounts for the first half-year, and show the amount due to the widow. (Institute of Chartered Accountants, Inter., 1906).

A.

Dr.		CASH BOOK.										Cr.	
		Income.		Capital.				Income.		Capital.			
		£	s. d.	£	s. d.			£	s. d.	£	s. d.		
1905.						1905.							
Aug. 1	To Estate Account:					Sep. 1	By Sundry						
	„ Balance at						Debts due by						
	at Bank .			865	0 0		deceased at			150	0 0		
	„ Balance in						date of Death			30	0 0		
	hand .			30	0 0		„ Funeral Ex-						
Oct. 1	„ Loan on					Dec. 1	penses .						
	Mortgage,						„ Testament-						
	less tax at						ary Ex-						
	1/- .	12	13 4	25	6 8		penses—						
	„ Freehold						Estate Duty						
	Property—						on Person-			610	0 0		
	Quarter's						alty .						
	Rent at						Estate Duty			200	0 0		
	£360 per						on Realty .						
	annum .	60	0 0	30	0 0		Interest on						
							Personalty						
1906.							Duty .	18	0 0				
Jan. 1	„ Great South-					1906.							
	ern Railway					Jan. 1	„ Testament-						
	Co.—						ary Ex-			172	0 0		
	Half-year's in-						penses .						
	terest, less						„ Balance .	271	6 8				
	tax at 1/-												
	on £8000, 4												
	per cent.												
	Debenture												
	Stock .	126	13 4	25	6 8								
	„ Freehold Pro-												
	perty—												
	Quarter's Rent												
	at £360 per												
	annum .	90	0 0										
31	„ Balance over-			186	6 8								
	drawn .												
		289	6 8	1162	0 0			289	6 8	1162	0 0		
Feb. 1	To Balance .	271	6 8			Feb. 1	By Balance .			186	6 8		

360 EXAMPLES OF EXECUTORS' ACCOUNTS

DR.			ESTATE ACCOUNT.			CR.			
1905.		£	s.	d.	1905.		£	s.	d.
Aug. 1	To Debts due at Death .	150	0	0	Aug. 1	By Cash in House .	30	0	0
	„ Funeral Expenses .	30	0	0		„ „ at Bankers .	865	0	0
	„ Estate Duty— £					„ „ on Deposit .	1500	0	0
	On Personalty 610					„ Household Furniture	700	0	0
	„ Realty . 200					„ Horse and Carriage,			
		810	0	0		etc. .	250	0	0
	„ Testamentary Ex-					„ Freehold Property .	5000	0	0
	penses . . .	172	0	0		„ Loan on Mortgage .	2000	0	0
	„ Legacies . . .	2450	0	0		„ Great Southern Rail-			
	„ Balance . . .	16,788	6	8		way, £8000 4% De-			
						benture Stock .	10,000	0	0
						„ Interest on Loan on			
						Mortgage at 4% to			
						date of Death .	25	6	8
						„ Rent accrued to date			
						of Death . . .	30	0	0
		20,400	6	8			20,400	6	8
					1906.				
					Feb. 1	By Balance . . .	16,788	6	8

DR.		FREEHOLD PROPERTY.						CR.			
		Income.		Capital.				Income.		Capital.	
		£	s. d.	£	s. d.			£	s. d.	£	s. d.
1905.						1905.					
Aug. 1	To Estate Account			5000	0 0	Oct. 1	By Cash . .	60	0 0	30	0 0
	„ ditto, for Ac-					1906.					
	crued Rent .			30	0 0	Jan. 1	By Cash . .	90	0 0		
1906.						„ 31	„ Balance .			5000	0 0
Jan. 31	To Income Acct.	150	0 0								
		150	0 0	5030	0 0			150	0 0	5030	0 0
Feb. 1	To Balance .			5000	0 0						

When the Property Tax for the year is paid, a proportion will be chargeable to capital in respect of the £30 rent accrued due at date of death.

Dr. GREAT SOUTHERN RAILWAY 4% DEBENTURE STOCK. Cr.

		Income.			Capital.					Income.			Capital.			
		£	s.	d.	£	s.	d.			£	s.	d.	£	s.	d.	
1905.								1906.								
Aug. 1	To Estate Ac-							Jan. 1	By Cash .	126	13	4		25	6	8
	count .				10,000	0	0	" 31	" Balance .				9974	13	4	
1906.																
Jan. 31	To Income Ac-	126	13	4												
	count .															
		126	13	4	10,000	0	0			126	13	4	10,000	0	0	
Feb. 1	To Balance .				9974	13	4									

Dr. LOAN ON MORTGAGE. Cr.

		Income.			Capital.					Income.			Capital.		
		£	s.	d.	£	s.	d.			£	s.	d.	£	s.	d.
1905.								1905.							
Aug. 1	To Estate Ac-				2000	0	0	Oct. 1	By Cash .	12	13	4	25	6	8
	count							1906.							
	„ ditto, for							Jan. 31	By Balance .				2000	0	0
	Accrued														
	Interest .				25	6	8								
1906.															
Jan. 31	„ Income Ac-	12	13	4											
	count														
		12	13	4	2005	6	8			12	13	4	2005	6	8
Feb. 1	To Balance .				2000	0	0								

362 EXAMPLES OF EXECUTORS' ACCOUNTS

DR.

INCOME ACCOUNT.

CR.

			£	s.	d.				£	s.	d.
1905.						1906.					
Dec. 1	To Cash					Jan. 1	By Freehold Property		150	0	0
	„ Interest on Personalty Duty		18	0	0		„ Great Southern Railway		126	13	4
1906.							„ Loan on Mortgage		12	13	4
Jan. 31	„ Balance		271	6	8				289	5	8
			289	6	8						
							By Balance due to Widow		271	6	8

DR.

LEGACIES.

CR.

			£	s.	d.				£	s.	d.
1905.						1905.					
Aug. 1	To Cash on Deposit at Bank		1500	0	0	Aug. 1	By Estate Account		2450	0	0
	„ Horse and Carriage, etc.		250	0	0						
	„ Household Furniture—Left to Widow absolutely		700	0	0						
			2450	0	0				2450	0	0

DR.

GENERAL STATEMENT.

CR.

			£	s.	d.				£	s.	d.
To Estate Account			16,788	6	8	By Bank-Income Account			271	6	8
„ Income Account due to Widow			271	6	8	„ Freehold Property			5000	0	0
„ Bank—Capital Overdrawn			186	6	8	„ Great Southern Railway Debentures			9974	13	4
			17,246	0	0	„ Loan on Mortgage			2000	0	0
									17,246	0	0

Income Tax has been calculated at the rate current in 1906, viz. 1s.

Draft a form of Investment Account suitable for use in the Ledger of an executor or trustee.

A.—

Date.	Particulars.	Led. Fol.	Income.		Capital.		Date.	Particulars.	Led. Fol.	Income.		Capital.	
			£	s.	d.	£	s.	d.			£	s.	d.
1909.													
Jan. 1 .	To Cash								July 3 .	By Cash .	£	s.	d.
	for £2000								Dec. 31.	" "	35	0	0
	Stock at								"	" Balance	35	0	0
	100 .					2000	0	0		c/f			
Dec. 31.	" Income												
	Account		70	0	0								
			70	0	0	2000	0	0			70	0	0
1910.													
Jan. 1 .	To Balance	b/d				2000	0	0					

Prepare the Form of Account for presentation to the Court in an administration suit.

A.—

No. of Item.	Date when received.	Names of Persons from whom received.	On what Account received.	Amount.	
				£	s. d.

No. of Item.	Date when paid or allowed.	Names of Persons to whom paid or allowed.	For what purpose paid or allowed.	Amount.	
				£	s. d.

CHAPTER XLVIII.

Stock Exchange terms and transactions—Foreign Currency Accounts—Approximate Trading and Profit and Loss Accounts and Balance-Sheets—Approximate Stock Book—Claims for loss of stock by fire—Voyage Accounts—Marine Insurance Fund—Statutory forms of accounts for Assurance Companies and Building Societies.

Explain the following terms used in connection with Stock Exchange transactions : "bull;" "bear;" "contango;" "backwardation;" "the Account;" "fortnightly settlement;" "special settlement;" "broker;" "jobber."

A. A "bull" is a person who buys shares in the expectation that they will rise in price and enable him to sell again at a profit.

A "bear" is a speculator who sells shares in the hope that they will go down in price and enable him to buy in at a profit. Thus if X. sells shares at £100 and buys in at £90 he makes a profit of £10, less commission, etc.

Contango is an extra commission charged for carrying over from one account to another a "bull" transaction.

Backwardation is an extra commission charged for carrying over from one account to another a "bear" transaction.

The Account is the period intervening between one Fortnightly Settlement and another.

Fortnightly Settlement is a day appointed by the Committee of the Stock Exchange for settling bargains in stocks and shares entered into during the preceding fortnight.

Special Settlement is a day appointed by the Committee for settling all bargains in the shares of a particular company which have been recently issued and dealt in by the public.

Broker is a member of the Stock Exchange who executes orders from his clients to buy or sell stocks and shares. He is bound by the rules of the Stock Exchange, and is remunerated by commission at recognized rates. An "outside" broker is one who is not a member of the Stock Exchange, and is not, therefore, subject to its rules.

Jobber is a member of the Stock Exchange who deals in a certain class of securities which he buys from and sells to brokers. His profit is the difference between the price at which he buys and the price at which he sells.

A. B. had the following transactions with his brokers :—

1910.

June 12, Bought 5000 Cape $3\frac{1}{2}\%$ @ £99.

" " 10,000 Ceylon 3% @ £87.

" " 2000 Natal $3\frac{1}{2}\%$ @ £99.

Broker's Commission and Stamps, £21 10s. 6d.

June 23, Sold 5000 Cape $3\frac{1}{2}\%$ @ £100.

" " 2000 Natal $3\frac{1}{2}\%$ @ £100.

June 24, Arranged to carry over the Ceylon Stock @ 87 in consideration of £9 10s.

Prepare A. B.'s account as it will appear in the Broker's Ledger.

A.—

DR.			A. B.'s ACCOUNT.			CR.						
1910.			£	s.	d.	1910.			£	s.	d.	
June 12	To	5000 Cape				June 23	By	5000 Cape				
		3½% @ 99	4950	0	0			3½% @ 100	5000	0	0	
	„	10,000 Cey-					„	2000 Natal				
		lon 8% @						3½% @ 100	2000	0	0	
		87	8700	0	0	„ 24	„	10,000 Cey-				
	„	2000 Natal						lon 8% at				
		3½% @ 99	1980	0	0			87	c/f	8700	0	0
	„	Commis-										
		sion and										
		Stamps	21	10	6							
„ 24	„	Contango	9	10	0							
„ 26	„	Cash	38	19	6							
			15,700	0	0				15,700	0	0	
Jan. 26	To	10,000 Cey-										
		lon 8% @										
		87	b/f	8700	0	0						

NOTE.—Only one commission is charged on stocks and shares bought and sold during the same account.

Q. A. White, of London, sells goods to customers in the United States. All goods are invoiced and accounts are rendered and settled in American currency. How should A. White record these transactions?

A. In converting English prices into American currency a standard rate will be used, say \$4.80 to the £, and all sales to

American customers will be entered in a special Sales Book which may be ruled as follows :—

Date.	Particulars.	Led. fol.	Currency.				Sterling.		
			Details.		Total.				
			\$	cents.	\$	cents.	£	s. d.	
1910.									
June 24	J. Smith, Chicago—								
	5 doz. Articles @ \$40.90		201	50					
	7 " " @ \$19.8		133	21					
					334	71	69	14	7

Each entry in the Sales Book will be posted to the debit of the Customer's Account in currency and sterling, thus :—

Folio 5.

Dr.

JAMES SMITH, CHICAGO.

Cr.

		Currency.			Sterling.					Currency.			Sterling.		
		\$	c.		£	s.	d.			\$	c.		£	s.	d.
1910.															
June 24	To Goods .	334	71		69	14	7								

At the end of the month the total sales (sterling figure) will be posted to the credit of Sales Account.

When drafts are received in settlement the customer will be credited with the amount thereof in currency, and also with the actual cash received for the drafts, any difference between the actual and nominal value being transferred to a Difference in Exchange Account, thus :—

Dr.

JAMES SMITH, CHICAGO.

Cr.

		Currency.			Sterling.					Currency.			Sterling.		
		\$	c.	£	s.	d.				\$	c.	£	s.	d.	
1910.															
June 24	To Goods	334.71		69	14	7			1910.						
									July 31	By Draft	334.71		68	12	0
										" Difference					
										in Ex-					
										change					
										Account.			1	2	7
		334.71		69	14	7					334.71		69	14	7

If the drafts realize more than the nominal equivalent in sterling the Personal Account will be debited (sterling column), and Difference in Exchange Account will be credited, the balance of the latter account being eventually transferred to Profit and Loss.

Q. The directors of a Trading Company desire to have submitted to them each month an approximate Trading and Profit and Loss Account and Balance-Sheet, their object being to be informed as to the progress and position of the business, and to keep a check on the Stock Accounts so as to minimize the danger of false returns on the part of the managers, or pilfering on the part of dishonest employees. How can such accounts be prepared?

A. In order to facilitate the preparation of the monthly Trial Balance, it will be necessary to arrange that the Private Ledger shall be self-balancing, and shall contain total accounts for debtors and creditors and for any real or nominal accounts kept in other Ledgers.

For the purpose of ascertaining the approximate value of the stock on hand at the end of each month, approximate Stock Accounts must be kept for each department. These accounts are based upon the following simple facts:—

Cost value of Stock at commencement of a period			
+	"	"	purchases during such period
—	"	"	sales
=	"	"	Stock at the end of the " period.

The important point is to ascertain as nearly as possible the cost value of the goods sold, which is often difficult, having regard to the large quantity, and the variations in character and prices of the goods. In many cases, however, the percentage of gross profit on sales from year to year, as shown by the audited accounts, is sufficiently uniform to serve as a means of preparing approximate Stock Accounts. It is usual to use the average known percentage for two or three years. The percentage is arrived at as follows:—

Dr.				DEPARTMENT A.				Cr.			
				£	s.	d.		£	s.	d.	
To Stock				5000	0	0	By Sales	16,000	0	0	
" Purchases				12,000	0	0	" Stock	4200	0	0	
" Gross Profit				3200	0	0					
				20,200	0	0		20,200	0	0	

The percentage of gross profit on sales is $\frac{3200 \times 100}{16,000} = 20$ per cent., or £3200, which, when deducted from the sales, gives the cost price of goods sold as £12,800. The stock must therefore be—

	£	s.	d.
Stock at commencement	5000	0	0
+ Purchases	12,000	0	0
	17,000	0	0
— Cost of Goods sold	12,800	0	0
= Stock at end of period	4200	0	0

The following is a form of Approximate Stock Book for several departments.

	Department A.			Department B.			Department C.			Department D.		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
Stock June 1, 1910	5000	0	0									
Purchases	12,000	0	0									
	17,000	0	0									
Less Sales	16,000	0	0									
	1000	0	0									
Add percentage (20 %) of gross profit on Sales	3200	0	0									
Approximate Value of Stock, June 30, 1910	4200	0	0									

Having prepared a Trial Balance and ascertained the approximate values of stocks on hand in each department the Approximate Trading and Profit and Loss Accounts and Balance-Sheet can be prepared.

A trader's warehouse is burnt down and his Bought Ledger, Purchases Day Book, and invoice files are destroyed. The Bought Ledger balances at the end of the previous year, and the Stock Sheets at the same date are preserved with the other usual books. State how sufficient records can be restored to prepare (a) the insurance claim, and (b) the current year's Trading Account and Balance-Sheet. [W. R. C. C. 908.]

A. The records will be restored as follows :—

- (1) As the Bought Ledger has been destroyed, all creditors will be asked to render statements of their accounts to the date of the fire, and in this way the total amount due to creditors will be ascertained.
- (2) The purchases for the current year will be ascertained by adding to the amount due, the total amount of cash paid to creditors during the period as per Cash Book, the total discounts received and bills accepted, and deducting from the resulting total, the Bought Ledger balances at the end of the previous year—thus—

	£	£	s.	d.
Amount due to Creditors at date of fire		5000	0	0
Add—				
Cash paid during period	12,000			
Discounts received	500			
Bills accepted	1500			
		14,000	0	0
Less—		19,000	0	0
Amount due to creditors at commencement of period		8000	0	0
= Purchases for the period		16,000	0	0

- (3) The total sales for the period will be obtained from the Private Ledger.
- (4) From the total sales will be deducted the percentage of gross profit, the cost of goods sold being thus approximately ascertained.
- (5) An approximate Stock Account will be prepared, thus—

	£	£	s.	d.
Stock at end of previous period				
Add: Purchases during do.				
Less: Cost value of goods sold				
= Approximate value of stock at date of fire				

The insurance claim and the current year's trading and Profit and Loss Account can be prepared with the above

information in addition to that obtainable from the records in the Private Ledger, Sales Ledger, and other books which have been preserved.

Q. What is a Voyage Account?

A. A Voyage Account is an account showing the profit or loss resulting from the voyage of a ship. It is made out in the form of an ordinary Profit and Loss Account. All expenses relating to the voyage including insurance, commission, brokerage, and a proper proportion of general expenses are debited to the account, and all freight, etc., earned will be credited. The balance represents the profit and loss on the voyage. The balance of profit brought forward from a previous Voyage Account should not be brought down until the profit or loss on the subsequent voyage has been ascertained.

Q. What is a Marine Insurance Fund?

A. A Marine Insurance Fund is a fund created by companies owning a fleet of vessels, for the purpose of providing for any loss which may arise. Instead of paying premiums to underwriters, the companies charge a certain sum to Profit and Loss, and invest the amount, the investment and interest thereon forming a separate Insurance Fund. The entries are—

		£	s.	d.	£	s.	d.
1st year	Profit and Loss Dr.	2500	0	0			
	To Insurance Fund Account . . .				2500	0	0
	Investment Account Dr.	2500	0	0			
2nd year	To Cash				2500	0	0
	Cash	100	0	0			
	To Investment Account Dr.				100	0	0
	For interest received.						
	Investment Account Dr.	100	0	0			
	To Insurance Fund Account . . .				100	0	0
	For interest accrued.						
	Profit and Loss	2500	0	0			
	To Insurance Fund				2500	0	0
	Investment Account	2600	0	0			
	To Cash				2600	0	0
	£2500 charged to Profit and Loss and						
	£100 interest						

Any loss will be debited to Insurance Fund Account and will be made good out of the invested funds.

Q. What accounts must be prepared annually for Insurance Companies?

A. By sect. 4 of the Assurance Companies Act, 1909—

“ Every Assurance Company shall, at the expiration of each financial year of the Company prepare—

“(a) A Revenue Account for the year in the form or forms set forth in the First Schedule to this Act, and applicable to the class or classes of assurance business carried on by the company ;

“(b) A Profit and Loss Account in the form set forth in the Second Schedule to this Act, except where the Company carries on assurance business of one class only and no other business ;

“(c) A Balance-Sheet in the form set forth in the Third Schedule to this Act.”

FIRST SCHEDULE.

(A)—FORM APPLICABLE TO LIFE ASSURANCE BUSINESS.
 Revenue Account of the in respect of Life Assurance Business.
 for the Year ending

	Business within the United Kingdom.			Business out of the United Kingdom.			Total.
	£	s.	d.	£	s.	d.	£
Amount of life assurance fund at the beginning of the year							
Premiums:—							
Consideration for annuities granted							
Interest, dividends, and rents							
Less income tax thereon.							
Other receipts (accounts to be specified)							
Claims under policies paid and outstanding—							
By death							
By maturity							
Surrenders, including surrenders of bonus							
Annuities							
Bonuses in cash							
Bonuses in reduction of premiums							
Commission							
Expenses of management							
Other payments (accounts to be specified)							
Amount of life assurance fund at the end of the year, as per Third Schedule							

NOTE.—Companies having separate accounts for annuities to return the particulars of their annuity business in a separate statement. Items in this Account to be net amounts after deduction of the amounts paid and received in respect of re-assurances of the Company's risks.

(B)—FORM APPLICABLE TO FIRE INSURANCE BUSINESS.

Revenue Account of the _____ for the Year ending _____ 19__ in respect of Fire Insurance Business.

£	s.	d.	£	s.	d.	£	s.	d.
Amount of fire insurance fund at the beginning of the year :—						Payments under policies paid and outstanding		
Reserve for unexpired risks						Commission		
Additional reserve (if any) .						Expenses of management		
Premiums—						Contributions to fire brigades		
						Other payments (accounts to be specified)		
Interest, dividends, and rents .						Amount of fire insurance fund at the end of the year as per Third Schedule:—		
Less income tax thereon .						Reserve for unexpired risks being per cent. of premium income for the year		
Other receipts (accounts to be specified) .						Additional reserve (if any) .		

NOTE.—Items in this Account to be the net amounts after deduction of the amounts paid and received in respect of re-insurances of the Company's risks.
Forms similar in character to (A) and (B) are also provided for (C) Accident Insurance, (D) Employers' Liability Insurance, and (E) Bond Investment Business.

SECOND SCHEDULE.

PROFIT AND LOSS ACCOUNT OF THE ENDING

FOR THE YEAR

19

	£	s.	d.		£	s.	d.
Balance of last year's account				Dividends and bonuses to shareholders			
Interest and dividends not carried to other accounts.				Expenses not charged to other accounts			
Less income tax thereon				Loss realized (accounts to be specified)			
Profit realized (accounts to be specified)				Other payments (accounts to be specified)			
Other receipts (accounts to be specified)				Balance as per Third Schedule			

Q. What annual accounts must be sent to the Registrar of Friendly Societies and of Building Societies?

A. —

FORM OF ANNUAL ACCOUNT AND STATEMENT to be made by a society under the Building Societies Acts prescribed for general use by the Chief Registrar of Friendly Societies, with the approval of the Secretary of State.

Statement of Accounts of the
 office or place of meeting at
 of 18
 The number of members of the Society is
 Building Society (incorporated 18) for its th year, ending the day
 in the County of

Dr.		1.—RECEIPTS AND PAYMENTS ACCOUNT.		Cr.			
	£	s.	d.		£	s.	d.
To Balance (if any) at Bankers at beginning of year				By Balance (if any) due to Bankers at beginning of year			
To Cash received during year, viz. :— [Here are to be stated separately the amounts under each head of receipt]				By Cash paid during year, viz. :— [Here are to be stated separately the amounts under each head of payment]			
To Balance (if any) due to Bankers at end of year				By Balance (if any) at Bankers and in hand at end of year			

2.—REVENUE INCLUDING ACCRETIONS TO CAPITAL AND EXPENDITURE ACCOUNT.

Balances at beginning of Year, as shown by last Annual Statement.	Additions during the Year (Stating under each head the total amounts added, and not the excess of addi- tions over diminutions).		Diminutions during the Year (Stat- ing under each head the total diminution, and not the excess of diminution over addition).		Balances at end of Year, as shown by Liabilities and Assets Account.	
	Particulars.	Amt. £ s. d.	Particulars.	Amt. £ s. d.	£ s. d.	£ s. d.
Due to Shareholders	Subscriptions of Shareholders . Interest added . Other additions, viz.:—		Withdrawals of Shareholders . Interest paid . Other diminutions, viz.:—		Due to Share- holders (e) .	
Due to Depositors and other Credi- tors	New Deposits . Interest added . Other additions, viz.:—		Deposits withdrawn Interest paid . Other diminutions, viz.:—		Due to Depositors and other Credi- tors (f) .	
Undivided Profit, not including Pro- spective Interest .	Fines and Fees . Other sources of Profit, viz.:—		Management ex- penses, viz.:—		Undivided Profit, not including Prospective In- terest (g) .	
(A)	(B)		(C)		(D)	
Total . £			Total . £			Total . £

2.—REVENUE INCLUDING ACCRETIONS TO CAPITAL AND EXPENDITURE ACCOUNT—continued.

£	s.	d.	£	s.	d.	£	s.	d.
Due on Mortgage Securities, not including Prospective Interest			Advanced on Mortgage Interest due from Borrowers			Repayment of Advances . . . Interest received from Borrowers . . . Income from Properties in possession . . . Amount written off for Losses . . . Other diminutions, viz. :—		
Other Assets			Investments made, viz. :—			Investments realised, viz. :—		
Balance deficient (if any)			Interest on Investments . . . Other additions, viz. :—			Interest received . . . Other diminutions, viz. :—		
(A)			(B)			(C)		(D)
Total . . . £			Total . . . £			Total . . . £		

A. and B. added together must equal C. and D. added together.
All the "Totals" must agree.

By other Assets :—	£	s.	d.	£	s.	d.
Amount invested in the Funds (bearing interest at — per cent.)						
Amount invested in other securities, viz. :—						
Nature of Security.				Rate of In- terest.		
Other Assets, viz. :—	£	s.	d.			
Cash at Bankers						
Cash in hands of (i)						
By Balance deficient (if any)				(k)		
				(D)		

D), (e), (f), (g), (h), (i), (k). These figures must agree with those in the last column of the Revenue and Expenditure Account.

(l). This figure must agree with that in the Certificate of the Auditors.

APPENDIX

EXERCISES AND EXAMINATION QUESTIONS

EXERCISES

Ledger Accounts—

Exercise 1.

From the following particulars prepare a Cash Account:—

1910.		£	s.	d.
January	1. Received from A. Jones . . .	5	3	6
"	4. Paid for goods bought . . .	3	10	6
"	5. Received for goods sold . . .	1	18	5
"	6. Paid A. Black . . .	2	10	0

Exercise 2.

From the following particulars prepare Cash Account, Goods Account, and J. Brown's Account:—

1910.		£	s.	d.
January	10. Received from J. Brown . . .	19	17	6
"	11. Paid for goods bought . . .	15	10	4
"	12. Received for goods sold . . .	7	13	2
"	13. Paid J. Brown . . .	2	10	0
"	14. Paid for goods . . .	3	15	0
"	15. Received for goods sold . . .	6	3	0

Exercise 3.

From the following prepare Cash Account, J. Robinson's Account, Fixtures Account, and Goods Account, and prove their correctness by a Trial Balance:—

1910.		£	s.	d.
February	1. Received from J. Robinson cash . .	50	0	0
"	2. Bought fixtures and paid cash . .	12	0	0
"	" Bought goods for cash . . .	24	10	0
"	3. Sold goods for cash . . .	5	12	0
"	4. Bought goods for cash . . .	8	10	0
"	5. Sold goods for cash . . .	4	15	0

Exercise 4.

From the following prepare Cash Account, A. Wilson's Account, Furniture Account, Goods Account, A. Robb's Account, and F. Wright's Account, and prove by Trial Balance:—

1910.		£	s.	d.
February	1. Received from A. Wilson cash . .	200	0	0
"	2. Paid for furniture . . .	30	0	0
"	3. Paid for goods . . .	140	0	0
"	4. Sold to F. Wright on credit goods .	26	0	0
"	" Sold goods for cash . . .	17	0	0
"	6. Bought of A. Robb on credit goods .	43	0	0
"	7. Bought goods for cash . . .	9	0	0
"	" Received from F. Wright cash . .	26	0	0
"	9. Sold goods for cash . . .	12	0	0
"	" Paid A. Robb . . .	20	0	0
D.A.B.		2 0		

Exercise 5.

Prepare from the following particulars: Cash, Goods, A. Webb's (Capital), Furniture, W. Wood's, Rent, Wages, Office Expenses, H. Thomas's, Carriage, Accounts, and prove by a Trial Balance.

1910.			£	s.	d.
January	1.	A. Webb commenced business with a capital of £250, consisting of Goods £180 and Cash £70.			
"	2.	Bought of A. Marks office furniture and paid	23	3	6
"	3.	Sold on credit to W. Wood goods value	12	4	2
"	"	Sold goods for cash	13	12	5
"	6.	Paid rent	2	10	0
"	"	Paid wages	3	0	0
"	"	Paid for postages (office expenses)	0	10	0
"	8.	Bought goods of H. Thomas on credit	28	5	0
"	"	Paid carriage thereon	0	7	6
"	"	Received cash from W. Wood	12	4	2

Exercise 6.

Prepare from the following particulars: J. Brown's (Capital), Cash, Goods, W. Black's, Fixtures, W. Cross's, E. Jones's, Wages, Accounts, and prove by Trial Balance.

1910.			£	s.	d.
February	1.	J. Brown began business with Cash £120 and Goods £310; but he owed to W. Black, £30. His subsequent transactions were:—			
"	2.	Bought fixtures and paid	30	10	0
"	3.	Bought goods for cash	12	0	0
"	"	Sold goods to W. Cross on credit	23	5	0
"	4.	Bought goods of E. Jones on credit	19	6	0
"	"	Sold goods for cash	6	18	0
"	5.	Paid wages	4	3	0

Exercise 7.

On March 1, W. Frost began business with the following Assets: Cash £62 10s.; Goods £110; Fixtures £25; Debts due from A. Milner £12, and from T. Withers £16. His liabilities were: Amounts due to M. Reed £14 8s. and to A. Croad £7. Find the amount of W. Frost's Capital, open Ledger accounts to record his position, and prove by Trial Balance.

Journal and Ledger—

Exercise 8.

Journalize the following transactions, post to Ledger accounts, and prove by Trial Balance:—

1910.			£	s.	d.
January	1.	A. Brough started business with cash	400	0	0
"	2.	Paid for fixtures	15	9	0
"	3.	Bought goods for cash	87	5	2
"	5.	Sold goods for cash	16	17	4
"	"	Bought of M. Steed on credit goods	23	5	0
"	6.	Paid wages	4	10	0
"	8.	Sold to S. Wren on credit goods	14	8	0
"	"	Paid M. Steed	12	0	0

Exercise 9.

Journalize, post to Ledger accounts, and prove by Trial Balance.

1910.			£	s.	d.
February	1.	H. Barber commenced business with Cash £48 and a stock of goods value £87.			
"	2.	Bought of Mead & Co. on credit goods	16	5	4
"	"	Paid carriage	0	8	2
"	3.	Sold to Wace & Co. goods on credit	5	3	7
"	"	Paid for postages (Office Expenses Account)	0	12	0
"	4.	Sold goods for cash	13	4	2
"	6.	Paid Mead & Co.'s account	16	5	4
"	8.	Bought of Mead & Co. goods	27	9	8
"	"	Paid carriage	0	9	5
"	9.	Bought goods for cash	3	2	7
"	"	Paid wages	7	3	6
"	"	Paid for packing materials (Trade Expenses Account)	1	10	0

Exercise 10.

Thomas Wade on January 1 possessed assets as follows: Cash £17, Goods £85, Premises £320, Fixtures and Fittings £67. Prepare the Journal entry necessary to open his Ledger.

Exercise 11.

W. Gordon on February 1 possessed assets as follows: Cash £230, Goods £710, Fixtures £24, Premises £430, debts due from A. Goodwin £63, T. Sharp £27, M. Saunders, £35. His liabilities consisted of debts owing to W. White £53, and to T. Brooks £41. Find the amount of W. Gordon's capital, and make the Journal entry required to open his Ledger.

Purchases Book, Sales Book, and Cash Book—**Exercise 12.**

From the following particulars prepare a Purchases Book, post to Ledger accounts, and prove by Trial Balance :—

1910.		£	s.	d.
January	1. Bought of M. Field & Co., Manchester :—			
	1 doz. Hats at 25/-	1	5	0
	3 „ Caps at 12/6	1	17	6
„	2. Bought of Wilson & Co., Leeds :—			
	1 piece Cloth 52 yds. at 6d. . .	1	6	0
	2 pieces „ 60 „ 9d. . . .	2	5	0
„	7. Bought of Weld & Co., Denton :—			
	3 doz. Felt Hats at 16/- . . .	2	8	0

Exercise 13.

1910.	
February	12. Bought of Blake & Co., London :—
	10 gallons of Wine at 50/-
	2 butts Sherry at 42/-
„	14. Bought of J. Smith, London :—
	Port Wine £30
	Sherry £60
„	15. Bought of Salmon & Co. :—
	1 pipe of Port at 53/-
	20 gallons Wine at 48/-

Exercise 14.

From the following particulars prepare Sales Book, post to Ledger, and prove by Trial Balance; also make out an invoice for each sale :—

1910.	
March	1. Sold to A. Wood, Leicester :—
	20 yds. of Cloth at 5/-
	16 „ „ „ 3/6
„	2. Sold to Beach & Co., London :—
	50 yds. of Velvet at 6/-
	22 „ Cloth at 4/6
„	5. Sold to Mace & Co., Brighton :—
	32 yds. of Cloth at 5/-
	20 „ „ „ 4/6

Exercise 15.

1910.	
May	3. Sold to Wren & Co., London :—
	5 doz. Caps at 10/-
	4 „ Ties at 4/-
„	4. Sold to T. James, Mansfield :—
	7 doz. Felt Hats at 16/-
	5 „ Silk „ 102/-
„	5. Sold to Weaver & Co., London :—
	6 doz. Caps at 7/6

Cash Book, Purchases Book, Sales Book, and Ledger—

Exercise 16.

From the following prepare Cash Book, post to Ledger accounts, and prove by Trial Balance:—

1910.		£	s.	d.
January	1. W. Bull started business with cash	55	0	0
"	" Paid A. Wilson	81	0	0
"	" Received cash for goods	28	0	0
"	" Received from W. Webb cash	12	0	0
"	" 4. Paid Wicks & Co.	13	15	0
"	" 5. Received from T. Noble cash	1	10	0

Exercise 17.

1910.		£	s.	d.
February	1. W. Gordon started business with cash	73	10	5
"	" 2. Paid for goods	6	8	0
"	" Received from Wace & Co.	18	12	0
"	" 3. Received from A. Stubbs	17	5	0
"	" Paid Jenks & Co.	32	0	0
"	" 4. Paid wages	5	0	0
"	" Paid rent	6	5	0
"	" Paid office expenses	0	15	0

Exercise 18.

From the following particulars prepare Cash Book, Purchases Book, Sales Book, and Ledger; post the first three books to the Ledger, and prove by Trial Balance:—

1910.		£	s.	d.
January	1. A. Dew commenced business with cash	120	0	0
"	" 2. Bought of Joyce & Co., Wine £40, Sherry £30, Brandy £12	82	0	0
"	" 5. Sold to J. Blake, Wine £12, Sherry £9	21	0	0
"	" 6. Paid office expenses	4	0	0
"	" 7. Sold goods for cash	8	0	0
"	" Paid Joyce & Co.	82	0	0
"	" 8. Received from J. Blake cash	21	0	0
"	" Bought of Joyce & Co., Wine £19, Sherry £23	42	0	0
"	" 10. Sold J. Blake, Sherry £12, Wine £15	27	0	0
"	" Paid wages	7	0	0
"	" Paid trade expenses	4	10	0

Exercise 19.

A. Bristow began business on January 1 with assets consisting of Cash £50, Stock of goods £180, Fixtures £27. Journalize and post these items to Ledger accounts and from the following particulars prepare Cash Book, Purchases Book, Sales Book, post to Ledger, and prove by Trial Balance:—

1910.			£	s.	d.
January	2.	Bought of T. Mann, Cloth £30, Cotton goods £15	45	0	0
"	"	Paid carriage	0	8	6
"	"	Sold goods for cash	9	0	0
"	3.	Sold H. Swann, Cloth £10, Silk £7	17	0	0
"	"	Bought goods for cash	15	10	0
"	"	Bought of T. Mann, Cloth £17, Cotton goods £31	48	0	0
"	5.	Paid T. Mann cash	45	0	0
"	"	Paid wages	7	3	0
"	6.	Received from H. Swann cash	17	0	0
"	"	Paid trade expenses	3	4	0

Returns Inwards and Outwards Books—

Exercise 20.

A. Taylor commenced business on Jan. 1, 1910, when his liabilities and assets were as follows: Liabilities to J. Freen £30, T. Cook £26. Assets, Cash £56, Goods £180. Debtors: M. Foster £28, A. Dean £21, Fixtures £27. Find the amount of A. Taylor's capital, make the opening Journal entry, and post the items therein to Cash Book and Ledger accounts.

His transactions during the month were as follows:—

1910.			£	s.	d.
January	1.	Bought of T. Webb, London:— 5 doz. Hats at 30/- . £7 10 0 4 „ Caps at 4/6 . 0 18 0			8 8 0
"	"	Sold Ernest & Co., of Manchester:— 2 doz. Hats at 36/- . £3 12 0 1 „ Caps at 5/9 . 0 5 9			3 17 9
"	2.	Sold goods for cash	8	10	0
"	4.	Bought of W. Stead goods and paid cash therefor (i.e. bought goods for cash)	9	3	0
"	"	Paid carriage	0	5	0
"	6.	Bought of T. Webb:— 12 doz. Hats at 25/- . £15 0 0 6 „ Caps at 3/9 . 1 2 6			16 2 6
"	8.	Paid wages	5	12	0
"	"	Paid rent	6	0	0
"	9.	Paid T. Webb	8	8	0
"	10.	Sold Ernest & Co., Manchester:— 5 doz. Hats at 28/-	7	0	0
"	"	Sold goods for cash	6	3	0
"	12.	Ernest & Co., returned:— 1 doz. Hats at 28/-	1	8	0
"	15.	Paid wages	5	12	0
"	"	Returned to T. Webb, London:— 1 doz. Hats 25/-	1	5	0
"	"	Paid office expenses	0	12	0
"	"	Paid trade expenses	1	5	0

(a) Enter the above transactions in Cash Book, Purchases Book, Sales Book, Returns Inwards Book, Returns Outwards Book, post to Ledger accounts, and prove by Trial Balance.

(b) Write out the invoice of the sale to Ernest & Co. on January 1.

(c) Write out the credit note for goods returned by them on January 12.

(d) Prepare a statement of Ernest & Co.'s account as at January 15.

Cash Book with Discount and Cash Columns—

Exercise 21.

Prepare A. Brown's Cash Book, post to Ledger accounts, and prove by Trial Balance :—

1910.		£	s.	d.
January	1.	Commenced business with cash	142	0 0
"	3.	Paid for office furniture	15	10 0
"	"	Bought goods for cash	108	5 0
"	4.	Received from J. Black	16	10 0
"	"	And allowed him discount	0	17 0
"	"	Paid A. Wilson	7	15 0
"	"	And received allowance of discount	0	7 6
"	5.	Received from W. White	15	0 0
"	"	And allowed him discount	0	15 0
"	"	Sold goods for cash	18	0 0
"	7.	Paid wages	5	0 0

Exercise 22.

Prepare A. Wood's Cash Book, post to Ledger, and prove by Trial Balance :—

1910.		£	s.	d.
March	1.	Commenced business with cash	150	0 0
"	2.	Paid for goods	72	5 8
"	"	Paid M. Timms	23	5 0
"	"	And received allowance of discount	1	5 0
"	3.	Received from T. Reed	13	4 0
"	"	And allowed him discount	0	16 0
"	4.	Paid office expenses	1	3 0
"	"	Paid F. Dodds	8	16 0
"	"	And received allowance of discount	0	4 0
"	5.	Cash sales (i.e. sold goods for cash)	1	15 0
"	"	Cash purchases (i.e. bought goods for cash)	2	3 0
"	"	Paid M. Timms	7	12 0
"	"	And received allowance of discount	0	8 0
"	7.	Received from T. Reed	4	3 0
"	"	And allowed him discount	0	3 6

Balancing Accounts—Trading Accounts—**Exercise 23.**

Prepare and balance the Ledger Accounts of T. Price and P. Gordon :—

1910.			£	s.	d.
June	1.	Sold to T. Price goods	95	4	3
"	2.	Bought of P. Gordon goods	12	14	7
"	10.	Sold to T. Price goods	132	5	6
"	12.	Bought of P. Gordon goods	111	15	9
"	15.	Sold to T. Price goods	12	6	0
"	16.	Bought of P. Gordon goods	57	3	2
"	20.	Returned by T. Price goods	4	7	6
"	23.	Received from T. Price cash	73	10	0
"	30.	Paid to P. Gordon cash	112	3	0

Exercise 24.

From the following particulars prepare and balance the Goods Account :—

Sundry Purchases—January 31, £140; February 28, £162; March 31, £143.

Sundry Sales—January 31, £165; February 28, £134; March 31, £158.

Stock on hand—March 31, £78.

Exercise 25.

From the following particulars prepare and balance the Goods Account :—

April 1. Stock on hand, £78.

Sundry Purchases—April, £149; May, £143; June £131.

Sundry Sales—April, £138; May, £157; June, £116.

Returns Inwards—April, £12; May, £15; June, £6.

Returns Outwards—April, £18; May, £9; June £13.

Stock on hand—June 30, £67.

Exercise 26.

From the following particulars prepare separate accounts for Stock, Purchases, Sales, Returns Inwards, and Returns Outwards.

January 1. Stock on hand, £67.

Sundry Purchases—January, £730; February, £670; March, £810.

Sundry Sales—January, £815; February, £630; March, £920.

Sundry Returns Inwards—January, £32; February, £25; March, £17.

Sundry Returns Outwards—January, £5; February, £12; March, £9.

Exercise 27.

Prepare and post Journal entries, closing the above accounts by transfer to Trading Account, and opening a new Stock Account. The Stock on March 31, amounted to £255. Find the gross profit and transfer the amount to Profit and Loss Account.

Profit and Loss Account and Balance-Sheet—

Exercise 28.

From the following particulars prepare accounts of Wages, Rent, Trade Expenses:—

			£	s.	d.
January	8.	Paid wages	15	0	0
"	12.	Paid trade expenses	10	5	0
"	16.	Paid wages	16	10	0
"	20.	Paid rent	6	0	0
"	23.	Paid wages	14	5	0
"	"	Paid rent	2	0	0
"	30.	Paid wages	15	4	0
"	"	Paid trade expenses	4	7	0

Exercise 29.

Prepare and post Journal entries closing the above accounts by transfer to Profit and Loss Account.

Exercise 30.

From the following balances, taken from J. Wood's Ledger on June 30, 1910, prepare a Balance-Sheet:—

	DR.	CR.
	£ s. d.	£ s. d.
Capital		250 0 0
Cash	41 3 4	
Stock on hand	127 7 8	
M. Waite		72 6 6
W. Stubbs	117 15 6	
Furniture and fittings	36 0 0	
	<u>322 6 6</u>	<u>322 6 6</u>

Exercise 31.

Enter the following transactions of W. Cross in the proper books, post to Ledger accounts and prepare a Trial Balance:—

		£	s.	d.
1910.				
March	1.	Commenced business with cash	400	0 0
"	2.	Bought of A. Webb goods	120	15 7
"	"	Paid for furniture and fittings cash	25	0 0
"	3.	Sold W. Deakin goods	31	10 4
"	"	Sold A. Jones goods	12	13 2
"	5.	Cash sales	5	15 3
"	7.	Bought of T. Line goods	21	8 5
"	"	Bought of G. Cliff goods	35	17 6
"	"	Paid wages	4	0 0
"	9.	Paid A. Webb cash	57	5 0
"	11.	Cash purchases	12	13 2
"	12.	Received from W. Deakin cash	10	11 9
"	16.	Paid T. Line cash	8	12 6
"	28.	Paid G. Cliff cash	17	18 0
"	29.	Paid rent	4	15 0
"	"	Paid wages	5	10 0
"	31.	Paid office expenses	3	5 0

Exercise 32.

From the foregoing prepare by Journal entries Trading and Profit and Loss Account, taking the value of Stock-on-hand at £165. Bring down all balances and prepare a Balance-Sheet as at March 31, 1910.

Departmental Accounts—

Exercise 33.

A. Broad commenced business on March 1, 1910, with the following assets and liabilities:—

	£	s.	d.
Cash	157	10	0
Wine on hand	370	0	0
Sherry on hand	295	0	0
Brandy on hand	420	0	0
Debtors—A. Briggs	25	10	0
W. Tagg	23	5	0
Creditors—W. Black	57	0	0
G. Thomas	34	0	0

Journalize and post the above to Cash Book and Ledger accounts. His transactions during the month were:—

1910.		£	s.	d.
March 2.	Sold to A. Briggs—			
	Wine	£41		
	Brandy	54		
		—	95	0 0
" 4.	Paid trade expenses		1	10 0
" 5.	Paid wages		7	0 0
" 7.	Bought of W. Black—			
	Sherry	£37		
	Wine	60		
		—	97	0 0
" 10.	Paid W. Black £57, less 5 per cent. discount			
" 14.	Bought of G. Thomas, Brandy		85	10 6
" 17.	Received from W. Tagg payment of his ac- count less 2½ per cent. discount.			
" 19.	Paid wages		6	10 0
" "	Paid office expenses		0	15 0
" 22.	Sold to W. Tagg—			
	Wine	£52		
	Sherry	85		
		—	117	0 0
" 24.	Paid G. Thomas £34, less 8½ per cent. discount			
" "	Paid wages		7	5 0
" 31.	Sold to A. Briggs—			
	Wine	£120		
	Brandy	76		
		—	196	0 0

1910.		£	s.	d.
March 31.	Paid trade expenses	2	11	0
" "	Cash sales for the month—			
	Wine	58	5	0
	Brandy	167	10	0
	Sherry	76	8	6

Enter the above transactions in Departmental Purchases and Sales Books, Cash Book, post to Ledger accounts, and prepare Trial Balance.

Exercise 34.

From the foregoing prepare Profit and Loss Account and Balance-Sheet. The Stocks on hand at March 31 were: Wine, £215; Sherry, £220; Brandy, £182; and it is desired to know the profit on each of these goods. (N.B.—As the gross profits will be shown in the Departmental Accounts, a Trading Account is not required.)

Bad Debts—

Exercise 35.

(N. U. T., 1908.)

On January 1, 1908, the state of Henry Flint's business was as follows: Cash in hand, £350 12s. 6d.; Goods on hand, £410.

Debtors: A. Berks, £100 7s. 6d.; B. Devon, £75 5s.; C. Kent, £320 15s. Creditors: D. Lanes, £225 5s.; and F. Yorks, £80 15s.

You are requested to find and Credit his Capital. Then enter the following transactions in suitable books, post them to the Ledger, draw out a Trial Balance:—

1908.		£	s.	d.
January	1. Paid salaries	25	10	0
"	2. Paid rent	30	5	0
"	4. Received cash of C. Kent £217 0			
	Allowed discount in addition	3	15	
		220	15	0
"	6. Paid for stationery	2	12	6
"	7. Sales to C. Kent	181	10	6
"	8. Received cash for a bad debt previously written off [Cash Dr., Bad Debts Cr.]	15	10	9
"	9. Bought goods of D. Lanes	50	0	0
"	10. Received cash of A. Berks	75	0	0
	Wrote off balance of his account as a bad debt	25	7	6
"	11. Cash sales	75	10	0
"	13. Cash received from C. Kent	100	0	0
"	14. Paid wages	10	7	6
"	15. C. Kent bought goods	41	9	6
"	16. Cash purchases	68	10	4
"	17. Paid to D. Lanes cash £124 0			
	Discount allowed in addition	1	5	
		125	5	0

(Continued.)

1908.		£	s.	d.
January 18.	F. Yorks purchased goods . . .	30	0	0
" 20.	Cash received of B. Devon . . .	£74	0	
	Allowed discount in addition . . .	1	5	
			75	5 0
" 21.	Purchases from G. Notts . . .	128	18	6
" 22.	Paid F. Yorks . . .	£49	0	
	He allowed discount in addition . . .	1	15	
			50	15 0
" 23.	Sales to B. Devon . . .	112	2	3
" 24.	Paid Cash to D. Lancs	£98		
	Discount allowed in addition . . .	2		
			100	0 0
" 25.	Paid wages . . .	10	7	6
" 28.	B. Devon bought goods . . .	35	0	0
" 29.	Bought goods of F. Yorks . . .	76	4	6
" 30.	Drew cash for private purposes . . .	20	0	0
" 31.	Interest on capital [Dr. Interest, Cr. Capital] . . .	4	10	0
" "	Goods on hand . . .	366	0	4

Rectification of Errors, Trial Balance, Trading and Profit and Loss Account, and Balance-Sheet.

Exercise 36.

(a) Explain what effect the following mistakes would have on the accounts of a business:—

A receipt from a creditor of £240 entered in the Cash Book and posted as £200.

A payment for expenses of £160 entered in the Cash Book and posted as £120.

A credit sale of goods of £300 debited to Expenses Account in the Ledger instead of the customer's account.

A cash sale of goods amounting to £29 10s. was credited to a Customer's Personal Ledger Account instead of to Cash Sales Ledger Account. [Inst. of Bankers, 1909.]

(b) In taking out the balances of your books you find that your book-keeper has made the following errors:—

£25 paid for office furniture has been debited to "Trade Expenses Account."

Invoice for £23 for goods purchased has not been passed through books, although the goods are included in the stocktaking.

How would you rectify these errors?

[Lancs. and Cheshire Union of Institutes, 1910.]

Exercise 37.

The following errors have been made in book-keeping. Provided the books have been kept on the double-entry system, what effect would they have on the accounts if they remain unremedied?

Goods bought, £50, posted as New Machinery.

Machinery sold, £25, posted as Cash Sales.

New Machinery bought, £100, posted as Repairs.

Goods purchased, £10, posted as Stationery.

Cash received in respect of Book Debts, £20, posted as Cash Sale.

[Soc. of Incorporated Accountants, 1907.]

Exercise 38.

State the principle on which stock-in-trade of a manufacturing company should be valued for Balance-Sheet purposes. Show the application of this principle to the following:—

- (a) An article costing 4s., usually selling for 5s., but not now likely to fetch more than 2s. 6d.
- (b) An article costing 5s., and saleable at 6s., but now capable of being produced for 4s.
- (c) An article costing 5s., and saleable at 7s. 6d., but not now capable of being produced under 6s. 8d.

[Chartered Institute of Secretaries, 1910.]

Exercise 39.

Write up in the Cash Book, Sales and Purchase Day Books, and Ledger the following transactions of John Wilson. Prepare Trial Balance, Profit and Loss Account, and Balance-Sheet, March 31, 1910. Use Journal for closing entries only:—

1910.		£	s.	d.
January	1.	Cash in hand	16	15 0
"	3.	Bought goods of M. Noble & Co.	35	0 0
"	8.	Sold goods to S. James	7	16 8
"	19.	Bought goods of M. Noble & Co.	4	18 4
"	28.	Paid trade expenses	1	11 0
"	"	Paid wages	7	0 0
"	31.	Sold goods to S. James	19	2 0
February	5.	Sold goods for cash	2	7 6
"	12.	Bought goods from M. D. Knox	12	16 4
"	14.	Paid rent	5	10 0
"	24.	Sold goods to B. Marshall & Sons	9	19 0
"	29.	" " S. James	2	12 10
March	5.	Received cash from S. James	29	11 6
"	8.	Bought goods from M. D. Knox	9	15 4
"	9.	Paid cash to M. D. Knox	22	11 8
"	12.	Bought goods for cash	1	18 10
"	14.	" " from M. Noble & Co.	52	12 4
"	19.	Paid wages	7	0 0
"	24.	Paid trade expenses	1	16 0
"	31.	Stock on hand £10		

[West Riding C. C., 1910.]

Exercise 40.

The following Trial Balance was extracted from the books of T. Hall on June 30, 1910:—

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Capital				1738	9	7
Cash	58	9	2			
Stock, June 30, 1909	987	5	3			
Purchases	2467	8	10			
Debtors	635	8	2			
Plant and Machinery	1000	0	0			
Sales				3591	7	10
Wages	392	7	8			
Carriage Inwards	62	1	5			
Office Expenses	41	8	2			
Salaries	225	10	0			
Rent, Rates, and Insurance	82	5	0			
Creditors				593	7	8
Trade Expenses	37	10	0			
Returns Inwards	76	5	0			
„ Outwards				82	3	7
	6005	8	8	6005	8	8

The stock-in-trade on June 30, 1910, was valued at £1034 3s. 2d. On the same date £15 was due for rent, and £7 for wages. Prepare Trading and Profit and Loss Account and Balance-Sheet, after writing off 10 per cent. for depreciation of plant and machinery.

Cash Book with Bank Columns—

Exercise 41.

(a) Write up in Thomas Walker's Cash Book, with columns for Discount, Cash, and Bank, the following items. Balance the Cash and Bank Columns on April 30:—

1910.		£	s.	d.
April	1. Cash in hand	18	17	10
„	2. Paid into Bank	10	0	0
„	4. Sold goods for cash	1	4	9
„	5. Paid advertisements		2	4
„	6. Paid by cheque to Martin & Co.	7	12	2
	Discount 2s. 10d.			
„	8. Received from Barnet & Co. and paid to Bank	9	5	0
	Discount 25s.			
„	9. Received from Hy. Hirst	1	18	4
	Discount 1s. 8d.			
„	11. Bought goods for cash	4	5	0
„	13. Received from Benj. Wright	1	19	0
	Discount 1s.			
„	15. Paid for coals		15	3
„	18. Paid to self	1	17	10

1910.		£	s.	d.
April 28.	Received from Chas. Dearman .	2	18	6
	Discount 1s. 6d.			
" "	Received for goods sold .		17	6
" "	Paid into Bank the last two items			
" 26.	Paid to Andrews & Son .	1	10	0
" 28.	Cash drawn from Bank .	2	10	0
" 29.	Paid Nasmith Bros. by cheque .	9	7	6
	Discount 12s. 6d.			
" 30.	Paid sundry expenses .	1	8	4
[W. R. C. C., 1910.]				

(b) If, on comparing your Bank Cash Book Balance with your Bank Pass Book Balance, you found that the two did not agree, what steps would you take to check the correctness or otherwise of your Bank Cash Book, and what would be the principal differences you would expect to find?

[R. Soc. of A., Stage III., 1908.]

Bills of Exchange—

Exercise 42.

(a) From the following particulars prepare a Bills Receivable Book, post to Ledger accounts, and prove by Trial Balance:—

1910.

- February 1. Received from J. Noad bill for £50, dated January 16, accepted by W. Parker and drawn by J. Smith, payable two months after date.
 " 3. Received from J. Stamper bill for £61, dated January 9, payable three months after date.
 " 7. Received from M. James his acceptance, at three months from date, for £25.

(b) Referring to the above-named bills, record in the Cash Book the following subsequent transactions, post to Ledger, and prove by Trial Balance:—

- February 12. Discounted W. Parker's acceptance at the Bank, and received credit for £49 5s., being charged 15s. for discounting.
 April 11. J. Stamper's bill was paid into Bank for collection, and was duly met.
 May 9. M. James's bill was paid into the Bank for collection.
 " 12. M. James's bill was returned dishonoured: 5s. noting charges paid by bankers, and charged by them in account.

Exercise 43.

(a) From the following particulars prepare a Bills Payable Book, post to Ledger Accounts, and prove by Trial Balance:—

1910.

- March 1. Accepted A. Black's draft for £60 at two months.
 " 3. Accepted T. Moon's draft at one month, £45.
 " 5. Accepted W. Wain's draft at three months, £70.

(b) Record in Cash Book and Journal the following subsequent transactions; post and prove by Trial Balance:—

- March 15. Retired A. Black's draft by cheque for £58 10s.; received rebate of £1 10s.
 April 5. Received from Bank advice of payment of Moon's draft, £45.
 June 3. Dishonoured W. Wain's draft for £70.
 „ 4. Paid him cheque, £20, and gave him a fresh acceptance for £52, including £2 for interest.

Exercise 44.

(a) Who are the parties to a bill of exchange? Make out a bill of exchange, showing the amount of stamp duty, drawn by K. Hindley on J. Thompson for £312 9s. 6d., dated March 5, 1909, at three months date. Show also the acceptance and endorsement of such bill.

[Lancs. and Cheshire Union of Institutes, 1910.]

(b) On January 1, 1910, Arthur Benson borrows from Charles Davies £250, and hands him a bill of exchange at three months, payable at Lloyds Bank, Limited, Lombard Street, for the amount, with interest at the rate of 4 per cent. per annum. Give complete copy of the bill, marking stamp, and state what entries should be made in Benson's books.

[Inst. of C. A., Inter., May, 1910.]

(c) John Smith draws a bill on January 1, 1910, for £5000 on William Robinson, payable at Lloyds Bank Head Office, in six months time, which is duly accepted within three days thereafter, and discounted at 3 per cent. by John Smith with the Union Discount Co. on February 1, 1910. Sketch the bill. Give a suitable ruling for a Bills Receivable Book, and show the entry of this bill therein.

[Inst. of C. A., 1910.]

Exercise 45.

(a) Rule a form of Bills Payable Book and enter particulars of two bills therein.

(b) Rule a form of Cash Book with Discount, Cash and Bank columns; enter therein six items of Receipts and six of Payments, showing how you would deal with payments into and withdrawals from the Bank, Bills Receivable discounted, Bills Payable matured and Cash discount.

(c) Enter the following transactions in the necessary account books of E. Harper, post the Ledger accounts and prepare Trial Balance:—

1909.

- October 21. Purchased from A. C. Gurney, goods costing £550, paying for the same before delivery less 5 per cent. discount by cheque on my bankers.
 „ 23. Sold J. Jones goods to the value of £150, receiving a bill of exchange at three months for a like amount in payment.
 „ 25. Returned portion of the goods to A. C. Gurney to the value of £50, the same not being according to sample.
 „ 31. Discounted J. Jones' Bill with my bankers, the discount charged by the bankers being £2.
 November 7. Sold for Cash to M. Barr, goods to the value of £75.

December 8. Sold W. Watson goods to the value of £340 on monthly account, which, less £15 discount, was settled by cheque and paid into the Bank on December, 31, 1909.

[Inst. of Bankers, 1910.]

Exercise 46.

(a) On July 1, 1909, William Robinson accepted John Smith's bill for £5000 payable in six months' time. On July 4, 1909, John Smith discounted the bill with his bankers at 5 per cent. per annum. The bill was dishonoured on presentation, the noting charges being 5s., and the next day William Robinson paid John Smith £1000 on account, and gave him a bill payable at six months for the balance of the account, plus 5 per cent. per annum interest. Give the entries which should appear in John Smith's Cash Book and Ledger to properly record these transactions.

[Inst. of C. A., Inter., June, 1910.]

(b) Robinson, on August 31, 1907, buys from Tuck & Co. 150 tons of coal at 7s. 6d. a ton at the pit mouth, and pays for them at once by cheque, being allowed a discount for cash of $2\frac{1}{2}$ per cent. He pays 1s. 3d. a ton for carriage by rail and 9d. a ton for cartage. He sells the coal to a Sheffield manufacturing company at 12s. 6d. a ton on September 14, and draws a bill, at two months, for the amount. The bill is dishonoured at maturity, but is immediately paid by the manufacturing company upon demand being made to them. Draw the bill of exchange and make the entries necessary to record the above transactions in Robinson's books, and show what profit or loss Robinson made upon the deal after charging 10 per cent. on the original cost of the coal for establishment expenses.

[London Chamber of Commerce, 1909.]

(c) A bill at six months for £500, accepted by A. on January 1 for goods purchased from B., is discounted with C., on March 31, at 5 per cent. per annum.

The bill is dishonoured by A.'s bankers on presentation, the charges for noting and expenses being 5s.

A. then agrees to pay B. £100 cash on account, and to be charged interest at 6 per cent. per annum, giving two bills—one for £200 at three months, and one for the balance at six months.

Show all these transactions in B.'s ledger.

[Inst. of C. A., Inter., 1909.]

(d) Jones, for the mutual and temporary accommodation of himself and Brown, draws upon the latter a bill of exchange at three months for £600, dated January 1, 1908. Jones discounts this bill immediately at his bankers, the rate of discount being 5 per cent., and hands half the proceeds to Brown.

Brown, for a similar purpose, and at the same time, draws a bill at three months on Jones for £300. This he discounts at his bankers at 5 per cent., and hands half the proceeds to Jones. Brown becomes a bankrupt on March 31, 1908, and a first and final dividend of 5s. in the £ is paid on his estate on June 30, 1908.

Write up Brown's accounts in Jones's books. Assume, in each case, that one half of the charge for discounting the bill is chargeable to Brown, and one half to Jones.

[London Chamber of Commerce, 1909.]

Consignments—

Exercise 47.

1909.

- (a) June 30. Consigned from stock to A. Dugard to be sold by him on our account 1000 tons of coal, costing 8s. per ton, £400.

July 1. Paid carriage, freight and charges thereon, £350.

August 31. Received from A. Dugard an Account Sales showing the net amount realized was £960 accompanied by a bill of exchange at 60 days' sight for the amount realized.

Enter the above transactions in the Journal and Cash Book, and post to the Ledger, showing the profit or loss on the consignment.

[Inst. of Bankers, 1910.]

(b) What is an "Account Sales"? In what particulars (if any) does it differ from a "Consignment Account"?

On October 15, 1909, Delmaine Bros., of London, shipped to Donnison & Sons, of Port Elizabeth, 60 cases of mixed Sheffield goods. These goods were invoiced *pro forma* at £32 10s. per case.

The London payments in connection with this consignment were: Insurance, £10 12s.; Freight, £54 12s.; Sundry charges, £3 15s.

The payments made by Donnison & Sons, in South Africa, were: Storage, £16 12s.; Landing charges, £6 10s.; Insurance, £2 11s.

On December 15, Donnison & Sons sold 30 cases of goods at £45 per case, on December 17, 25 cases at £50 per case, and on December 19, the balance of the consignment at £51 per case. All the above sales were effected for prompt cash. A commission is payable to Donnison & Sons of 2 per cent. on all sales plus $1\frac{1}{2}$ per cent. *del credere* commission.

On November 1, Delmaine Bros. drew a bill on Donnison & Sons for £1000. This draft was duly accepted.

Prepare an "Account Sales" showing the result of the above consignment, and show how the transactions would appear in the books of Delmaine Bros.

[London Chamber of Commerce, 1910.]

(c) Make out a Foreign bill of exchange in duplicate. Why is the bill duplicated? What happens when the "first" is presented to the drawee for acceptance and it is the "second" which is endorsed?

[Soc. of Incorporated Accountants, 1910.]

(d) What is a bill of lading? What is meant by a bill of exchange "with documents attached"? What powers are possessed by the legal holder of such a bill of exchange?

[Soc. of Incorporated Accountants, 1910.]

Joint Ventures—

Exercise 48.

On August 1, 1910, A. and B. enter into a joint venture. Their transactions were:—

August 2. A. and B. each paid £500 to the credit of a Joint Banking Account.

„ 3. A. purchased a cargo of merchandise and paid for same by cheque on joint account, £980.

- August 3. A. paid cartage, etc., £9 15s.
 " 5. B. paid travelling expenses, £5 7s.
 " 6. B. sold the cargo and received cheque for the price, £1080, which he paid to the credit of the Joint Banking Account.

Prepare Ledger accounts, viz. Joint Banking Account, Joint Venture Account, and A. and B.'s personal accounts, recording all the above transactions and showing the profit on the venture and the amounts due to A. and B. respectively. Profits were to be shared equally.

Exercise 49.

Brown and Jones undertake a joint venture, and the following transactions take place:—

1910.

- January 1. Brown and Jones each pay £250 to the credit of a Joint Banking Account.
 " 12. Brown purchases a cargo of timber for £475, and pays for same by cheque on joint account.
 " 13. Jones incurs expenses as follows: travelling £5, commission £12, postages and telegrams £5, which he pays out of his own moneys.
 " 17. The timber is sold and realizes £540 net, which is paid to the credit of the Joint Banking Account.

Prepare the Joint Venture Account or Timber Account as it will appear in Brown's Ledger; also the Joint Banking Account; and state how much is due to Brown and Jones respectively after dividing the profit equally between them.

Partnership Accounts—

Exercise 50.

(a) On January 1, 1909, A. admits B. into partnership. The agreed value of the assets of A.'s business is as follows:—

	£	s.	d.
Leasehold premises	2000	0	0
Fittings and furniture	480	0	0
Stock	4600	0	0
Book debts	800	0	0
Cash in hand	50	0	0

His liabilities to trade creditors amount to £1500, and his indebtedness to his bankers is £2950. Under the terms of partnership B. pays £4000 to the bankers, of which £1000 is credited to A. as the purchase money of one-half of the goodwill. Draft the Journal entries for opening the books of the partnership.
 [Inst. of C. A., Inter., May, 1910.]

(b) A. and B., as partners, possess £20,000 and £5000 respectively in a firm. Their gross trading profit is £3250. By their partnership agreement they divide profits in proportion to their holding after giving B. £500 as manager and allowing 5 per cent. interest on capital. A.'s drawings were £700 and B.'s £100.

Draw up a Profit and Loss Account and separate Partners' Accounts.
 [Soc. of Incorporated Accountants, June, 1910.]

(c) Give the "Drawing Account" of John Robertson as it would appear in the firm's Private Ledger as on December 31, 1909, under the following conditions:—

His Capital on January 1, 1909, was £5000.

His drawings were: May 1, £250; July 1, £300; November 1, £200; December 1, £100.

His share of profits for the year was £795.

Interest is allowed by the firm's Partnership Articles on Capital, and charged on withdrawals at the rate of 5 per cent. per annum.

[R. Soc. of A., 1910.]

Exercise 51.

(a) X., Y., and Z. are in partnership, and on January 1, 1909, their respective capitals were £4000, £2780, and £1590. Y. is entitled to a salary of £250 and Z. to one of £200 per annum, payable before division of profits. Interest is allowed on capital at 5 per cent. per annum and is not charged on drawings. Of the net divisible profits X. is entitled to 40 per cent. of the first £1000, Y. to 35 per cent., and Z. to 25 per cent.; over that amount profits are shared equally. The profit for the year ended December 31, 1909, after debiting partners' salaries, but before charging interest on capital, was £2317, and the partners had drawn £800 each on account of salaries, interest, and profits. Prepare the closing entries of the Profit and Loss Account and the Partners' Accounts for the year.

[Inst. of C. A., Inter., May, 1910.]

(b) A. buys goods from B. as per following:—

		£	s.	d.
September 4.	To goods	654	0	0
" 12.	"	424	0	0
October 2.	"	513	0	0

The terms of sale were acceptance to be drawn at one month from date of invoice. It was, however, mutually agreed that B. would draw on A. at the average date. Give the nearest date for equating the bill.

[Soc. of Incorporated Accountants, 1909.]

Exercise 52.

From the following Trial Balance, draw up a Trading Account, a Profit and Loss Account, and a Balance-Sheet, after taking into account the items set forth at the foot of the Trial Balance.

TRIAL BALANCE, December 31, 1909.

	£	s.	d.	£	s.	d.
Alfred Parker's Capital Account .				7,500	0	0
Joseph Dunville's ditto .				2,500	0	0
Stock, July 1, 1909	5,500	0	0			
Purchases	7,400	0	0			
Productive wages	8,400	0	0			
Salaries	1,100	0	0			
Sales				21,800	0	0
Rent	550	0	0			
Rates	182	0	0			
Insurance	180	0	0			
Repairs	60	0	0			
Commission	105	0	0			
Gas	120	0	0			

	£ s. d.	£ s. d.
Bad debts	108 0 0	
General expenses	170 0 0	
Plant and machinery	5,200 0 0	
Office furniture	200 0 0	
Debtors and creditors	2,800 0 0	1,900 0 0
Returns	150 0 0	250 0 0
Petty cash	30 0 0	
Bank	800 0 0	
Drawings—A. P.	1,000 0 0	
" J. D.	400 0 0	
	<u>33,950 0 0</u>	<u>33,950 0 0</u>

The stock on December 31 was £4700. Charge depreciation on plant at $7\frac{1}{2}$ per cent. per annum, allow interest on Capital at 5 per cent. per annum, and divide net profit in proportion to capital held.

[Soc. of Incorporated Accountants, Inter., June, 1910.]

Exercise 53.

A., B., and C. commenced a manufacturing business in partnership on January 1, 1909. The following is the Trial Balance on December 31, 1909:—

	£ s. d.	£ s. d.
A. Capital Account		1,000 0 0
B. Ditto		500 0 0
A. Drawing Account	500 0 0	
B. Ditto	250 0 0	
C. Ditto	400 0 0	
A. Loan Account at 5 per cent. per annum—		
June 30, 1909	£1,000	
August 31, 1909	1,000	
		2,000 0 0
Plant and machinery	1,250 0 0	
Office furniture	100 0 0	
Bank		750 0 0
Raw materials purchased	5,250 0 0	
Wages, productive	2,100 0 0	
" unproductive	550 0 0	
Salaries of employees	600 0 0	
Coal, gas, and water	100 0 0	
Rent, rates, and taxes	250 0 0	
Discounts	195 0 0	80 0 0
General trade expenses	80 0 0	
Bad debts written off	55 0 0	
Returns from customers	140 0 0	
Repairs	90 0 0	
Sales		8,400 0 0
Debtors and creditors	2,020 0 0	1,900 0 0
	<u>18,930 0 0</u>	<u>18,930 0 0</u>

Prepare Trading Account, Profit and Loss Account, and Balance-Sheet, dealing with the Partners' Accounts on the basis of the Partnership Act,

1890. Provide for depreciation, £40 on plant and £5 on furniture; for discounts $2\frac{1}{2}$ per cent. on Debtors; and for doubtful debts £100. The stock on December 31, 1909, amounted to £2500, of which £1550 was the value of raw material and £950 the value of manufactured and partly manufactured goods. Rent, rates, and taxes were paid in advance to the amount of £25.

[Inst. of C. A., Inter., May, 1910.]

Dissolution of Partnership—

Exercise 54.

L. Brier and C. Oke entered into partnership on January 1, 1905, L. Brier bringing in cash £8000, C. Oke bringing in nothing. The partnership agreement stipulated that Brier was to receive 5 per cent. interest on his capital before dividing any profit, which was divisible three-fifths and two-fifths respectively. On December 31, 1909, they agreed upon a dissolution. A Balance-Sheet was prepared at December 31, 1909, and stood as follows:—

LIABILITIES.		ASSETS.	
	£ s. d.		£ s. d.
L. Brier, Capital Account	8,000 0 0	Book debts . . .	14,000 0 0
J. Harrison, Loan Account . . .	4,000 0 0	Stock-in-trade . . .	5,700 0 0
Sundry creditors . . .	4,200 0 0	Machinery, etc. . .	2,400 0 0
Balance of P. and L. Account. £10,000		Drawings Account—	
Profit for the year 1909 . . .	2,500	L. Brier . . .	5,350 0 0
	— 12,500 0 0	C. Oke . . .	1,250 0 0
	<u>28,700 0 0</u>		<u>28,700 0 0</u>

L. Brier has not been credited with any interest since the commencement of the partnership. No interest on drawings or undistributed profits is to be taken into account. The book debts realized £13,600, the stock-in-trade £4900, and the machinery £2800. An amount of £500 was also received for goodwill, which had not appeared in the partnership books. Write up the necessary accounts to give effect to the above statements, assuming that all liabilities are discharged, and that the costs of realization, amounting to £300, are also paid by cash. Show the closing of the partners' capital accounts. The interest on L. Brier's capital is to be reckoned for each year on the original figure of £8000, and no interest on interest need be taken into account.

[Lancs. and Cheshire Union of Institutes, 1910.]

Exercise 55.

Jones, Brown, and Robinson were partners in a business, profits and losses being divided thus: Jones two-fifths, Brown two-fifths, and Robinson one-fifth. The partnership was dissolved as on December 31, 1909, upon which date the position of the firm was as follows:—

Dr.	BALANCE-SHEET.		Cr.
	£	s. d.	£ s. d.
Capital—			
Jones . . .	£3000		
Brown . . .	2100		
		5,100 0 0	
Loans—			
Jones . . .	500		
Smith . . .	800		
		1,300 0 0	
Sundry Creditors . . .		5,840 0 0	
Bank Overdraft . . .		1,000 0 0	
		<u>18,240 0 0</u>	
			<u>18,240 0 0</u>
Sundry Assets . . .			10,620 0 0
Debtors—			
Robinson . . .	£500		
Sundry . . .	2000		
			2,500 0 0
Cash in hand . . .			120 0 0

The expenses of the dissolution were £120. Jones took over the business, paying £7850 for the "Sundry Assets" and £2500 for the goodwill.

Prepare an account, as between the partners, showing the result of the dissolution. [Inst. of C. A., Final, May, 1910.]

Exercise 56.

A. and B., partners in a manufacturing business, admitted their manager C. as a partner to share in profits equally with A. and B., but it was stipulated in the agreement of partnership that C. was not to provide any capital, and in the event of dissolution was to have no claim in respect of goodwill, the property in which remained with A. and B. in equal shares. On December 31, 1909, the following Balance-Sheet was drawn up and approved by all parties:—

LIABILITIES.		ASSETS.	
	£ s. d.		£ s. d.
Creditors . . .	4,500 0 0	Property and plant . . .	18,000 0 0
Capital Accounts—		Debtors . . .	5,000 0 0
A.	£15,000	Stock	7,000 0 0
B.	15,000	Cash and bills in hand . . .	6,600 0 0
	30,000 0 0		
Partner's Personal Accounts for undrawn Interest and Profits—			
A.	£900		
B.	800		
C.	400		
	2,100 0 0		
	<u>36,600 0 0</u>		<u>36,600 0 0</u>

As on December 31, 1909, the business was sold as a going concern, and the partnership dissolved. The purchaser acquired the whole of the assets, and in consideration thereof undertook to pay the creditors and to pay the vendors in cash the sum of £45,000. In the sale the value of the property and plant was taken at £24,000, the other assets at the amounts stated in the Balance-Sheet and the balance of the purchase money was for goodwill. Draw up the final dissolution account between A., B., and C.

[Inst. of C. A., Inter., May, 1910.]

Total Accounts and Self-Balancing Ledgers—**Exercise 57.**

Messrs. A. B. & Co. have three Sales Ledgers (A-L, M-Z, and Country), one Bought Ledger, and one Impersonal Ledger. The debits and credits to these Ledgers are posted from one Cash Book, one Sales Day Book, and one Bought Day Book with single column rulings. You are asked to suggest to A. B. & Co. a method of keeping their books by which mistakes can be readily located to one or other of these Ledgers. Give the necessary rulings for the three last-mentioned books to effect this end.

[Inst. of C. A., May, 1910.]

Exercise 58.

John Garside keeps his "Sales Ledger" upon the "self-balancing" principle.

Prepare the necessary "adjustment account" as on January 31, 1910, from the undermentioned particulars:—

1910.		£	s.	d.
January 1.	Total debtors' debit balances at this date were	12,542	0	0
" 31.	Total goods sold to customers for the month	21,658	0	0
" "	Total goods returned by customers for the month	942	0	0
" "	Total cash received from customers for the month	15,621	0	0
" "	Total discount allowed to customers for the month	968	0	0
" "	Total acceptances received from customers during the month	3,471	0	0
" "	Total acceptances dishonoured by customers during the month	542	0	0

[R. Soc. of A., Stage III., 1910.]

Exercise 59.

(a) The undermentioned particulars have been extracted from the books of Messrs. James Ogden & Co., who keep only one Sales Ledger. You are required to prepare the relative "Sales Ledger" and "General Ledger" Adjustment Accounts as on December 31, 1909.

1909.		£	s.	d.
June 30.	Debtors' balances	28,394	12	6
December 31.	Transactions for the half-year to date—			
	Sales to debtors	58,421	10	8
	Returns from debtors	691	12	0
	Cash received from debtors	41,344	8	6
	Discounts allowed to debtors	1,504	9	8
	Acceptances received from debtors	4,210	1	2
	Acceptances returned dishonoured	550	0	0
	Bad debts written off	942	10	0
	Sundry charges debited to debtors	29	4	6

[Inst. of C. A., Final, May, 1910.]

(b) Give rulings for a cash book to record discounts allowed and received, cash receipts (all paid into Bank), and payments by cheque only, and to provide facilities for balancing separately two Sales and one Bought Ledgers. Illustrate by specimen entries.

[Inst. of C. A., Inter., May, 1910.]

Exercise 60.

A trader who keeps Purchase and Sales Ledgers, but all of whose subsidiary books are common to both Ledgers, desires to prove the postings of each Ledger separately. For this purpose, notes are kept of all entries made in the Ledgers, of which the following is the summary to March 31, 1990.

You are required to ascertain the *total* Dr. or Cr. balances in each Ledger at that date.

SALES LEDGER.

1909.		£	s.	d.
January 1.	Debtor balances	9,415	15	8
" "	Credit "	102	4	6
	Sales per Day Book	9,348	0	1
	Cash paid to discharge over payments	86	14	6
	Inward returns	801	2	7
	Sales carried to Purchase Ledger	1	15	0
	Credits transferred to Private Ledger	114	11	5
	Sales made and debited on March 31, not entered in Day Book until April 1	17	18	10
	Cash received	9,645	15	1
	Transfer from Dr. side Sales Ledger to Private Ledger	6	12	4
	Discounts	308	9	10
	Transfers from Cr. side Sales Ledger to Purchase Ledger	544	7	0

PURCHASE LEDGER.

January 1.	Balances owing	4,454	18	1
" "	Dr. balances	0	6	11
	Discounts	96	5	5
	Purchases	12,460	14	3
	Sundry allowances credited as inward returns	6	4	11
	Outward returns	55	16	8
	Cash paid	5,924	7	11
	Payments made per petty cash	2	1	7
	Sales brought from Sales Ledger	1	15	0
	Transfers from Dr. side of Purchase Ledger to Sales Ledger	544	7	0
	Cash received	0	10	0

[Soc. of Incorporated Accountants, Inter., June, 1909.]

Single-entry Accounts—

Exercise 61.

(a) What are the advantages of double-entry book-keeping over single-entry? and how would you proceed to convert a single-entry system into double-entry?

[Lancs. and Cheshire Union of Institutes, 1910.]

(b) Robert Webber keeps his books by the "single-entry" method. His financial position on December 31, 1908, was as follows:—

	£	s.	d.
Cash in hand	12	10	0
Stock-in-trade	642	15	0
Fixtures and fittings	89	0	0
Cash at Bank	153	0	0
Sundry debtors	421	10	0
Machinery and plant	981	0	0
Sundry creditors	1209	15	0

During the year Robert Webber withdrew from the business, for private purposes, the sum of £480.

On December 31, 1909, Webber's financial position was as follows:—

	£	s.	d.
Machinery and plant	1350	10	0
Fixtures and fittings	80	10	0
Sundry debtors	732	0	0
Stock-in-trade	950	10	0
Cash in hand	15	0	0
Bank overdraft	500	0	0
Sundry creditors	1400	10	0

From the above particulars prepare a statement showing the profit made by Robert Webber for the year ended December 31, 1909. When preparing this statement no depreciation need be written off any of the assets, and no provision for bad and doubtful debts is necessary.

[London Chamber of Commerce, 1910.]

Exercise 62.

A retail shopkeeper who has kept his books by single entry desires you to prepare for him a Trading Account and Profit and Loss Account. The following material is available, and you are required to prepare such accounts in proper form:—

BALANCE-SHEET, June 30, 1906.

LIABILITIES.			ASSETS.		
	£	s. d.		£	s. d.
Sundry creditors	£420	0 0	Stock	620	0 0
Capital after adjustment of profits and drawings	730	0 0	Fixtures	50	0 0
			Sundry debtors	460	0 0
			Cash in hand	20	0 0
	<u>1150</u>	<u>0 0</u>		<u>1150</u>	<u>0 0</u>

SUMMARY CASH ACCOUNT, July 1 to December 31, 1906.

	£	s.	d.		£	s.	d.
Cash balance . . .	£20	0	0	Cash purchases . . .	76	0	0
Cash sales . . .	260	0	0	Credit „ . . .	840	0	0
Credit sales . . .	1020	0	0	Wages . . .	80	0	0
				House expenses . . .	175	0	0
				Rent, rates, and taxes . . .	32	0	0
				Coals, gas, and water . . .	12	0	0
				Trade expenses . . .	40	0	0
				Cash in hand . . .	45	0	0
	1900	0	0		1900	0	0

BALANCE SHEET, December 31, 1906.

LIABILITIES.	£	s.	d.	ASSETS.	£	s.	d.
Sundry creditors . . .	880	0	0	Stock . . .	680	0	0
Capital after adjustment of profits and drawings . . .	895	0	0	Fixtures . . .	40	0	0
				Sundry debtors . . .	510	0	0
				Cash in hand . . .	45	0	0
	1275	0	0		1275	0	0

[Soc. of Incorporated Accountants, 1907.]

Exercise 63.

A. keeps his books by single entry. On January 1, 1909, his capital was £6900. An analysis of his Cash Book for 1909 gives the following particulars:—

DEBIT SIDE.

	£	s.	d.
Received from sundry debtors . . .	6000	0	0
Paid in on Capital Account . . .	500	0	0
CREDIT SIDE.			
Due to Bank, January 1, 1909 . . .	740	0	0
Payments to sundry creditors . . .	2500	0	0
General expenses of business . . .	1000	0	0
Wages . . .	1550	0	0
Drawings . . .	300	0	0
Balance at Bank, December 31, 1909 . . .	400	0	0
Balance in hand . . .	10	0	0

Debtors at January 1, 1909, were	£5900, and at December 31, were	£8800
Creditors	ditto	£1500
Stock	ditto	£1700
Plant and machinery	ditto	£2000
Furniture and fittings	ditto	£140

From the above material prepare a Profit and Loss Account for the year ended December 31, 1909, and a Balance-Sheet at that date, after providing 5 per cent. Interest on Capital (ignoring payments in and drawings), 10 per cent. Depreciation on Plant, 5 per cent. Depreciation on Furniture, and a Reserve of 5 per cent. on Sundry Debtors.

[Inst. of C. A., Inter., May, 1910.]

Revenue and Capital Accounts—

Exercise 64.

(a) What is the difference (if any) between "Fixed" and "Floating" assets?

Designate to which class the undermentioned assets, the property of a boot manufacturer, belong:—

Book debts; stock-in-trade; consols £200; plant and machinery; freehold land; bills receivable; goodwill; patents.

[London Chamber of Commerce, 1910.]

(b) From the following, prepare in correct style the *Income and Expenditure* account of the *Carlton Club* for the year ended:—

December 31, 1907.	£	s.	d.
Rent, rates, and taxes (not paid)	50	0	0
Fuel and gas	40	0	0
Caretakers' wages	68	0	0
Printing and stationery	30	0	0
Repairs	12	0	0
Salaries	100	0	0
Subscriptions due or accrued	200	0	0
Donations	50	0	0
Billiard room	60	0	0
Refreshment room	100	0	0
Sundry hiring	20	0	0

[Balance to be shown.]

[N. U. T., 1908.]

Exercise 65.

(a) Is there any difference between a Receipts and Payments Account and an Income and Expenditure Account?

The following particulars relate to the Chilworth Literary Society for the year ended December 31, 1909: Subscriptions received, £110; Interest received on Investment, £38; net proceeds received from lectures and concerts, £232; Rent paid for use of Hall, £21; petty cash payments, £10; advertising paid, £21; Printing expenses paid, £12 10s.

The Society holds ten 4 per cent. debentures of £100 each in the Universal Library, Ltd. As on December 31, 1909, the Society owed £8 for rent of hall and £9 10s. for printing.

Prepare the Society's Annual Statements of Account for the year ended December 31, 1909.

[London Chamber of Commerce, 1910.]

(b) The following are the transactions of Z., compiled from his Bank Book, Cheque Book, and memoranda for the six months ending March 31, 1910. Draft from them a Cash Receipts and Payments Account and a full statement showing Z. his position.

	£	s.	d.
Payments into Bank on Capital Account	425	14	5
" " loans refunded	27	17	6
" " profit on shares	30	18	4
Cheques dishonoured	302	6	1
" exchanged	139	3	8

	£	s.	d.
Cheques received in connection with the business and cashed by Z. for his own use	96	2	3
Receipts from customers	10,498	12	9
Drawings	1,568	6	0
Payments for expenses	196	17	11
" for petty cash	163	17	6
" for furniture	32	8	8
" for advertisements	76	2	8
Salaries of assistants	325	8	9
Weekly salary drawn by Z.	342	0	0
Loans to relatives	105	18	2
Payments in connection with business	8,137	19	10
Cash in hand	13	17	6

[Soc. of Incorporated Accountants, Final, May, 1910.]

Accounts of Joint Stock Companies—

Exercise 66.

(a) The following balances composed the Balance-Sheet of John Brown, Limited: Cash, £6000; Bills receivable, £1200; Sundry debtors, £2500; Stock, £5000; Capital, £10,000; Bills payable, £800; Sundry creditors, £1400; Divisible profit, £2500.

It was resolved to start a Reserve Fund with such an amount of the balance of profit as would, when invested, purchase £1500 Consols at 85 (charges neglected).

You are requested to give the necessary Journal entries to effect this; then set out Ledger accounts for Investments, Reserve Fund, and Profit and Loss; also draw up a new Balance-Sheet showing these changes.

(b) The Timbuctoo Railway Company issued its prospectus on January 1, 1910, inviting applications for 200,000 shares of £5 each, payable £1 per share on application, £1 on allotment on January 10, and £3 on March 1.

In addition, there was an issue of £1,000,000 three per cent. Redeemable Debentures, payable as to 5 per cent. upon application, and 95 per cent. on January 31. The whole of the issues were applied for and the cash duly received, with the exception that on March 25, the directors resolved that 10 shares upon which application and allotment money had been paid should be forfeited for non-payment of the call of £3 per share on March 1.

Give the usual Journal entries for the above transactions, omitting cash.

[N. U. T., 1910.]

Exercise 67.

A Limited Company was formed to take over an old-established manufacturing business. The purchase price was fixed, by an agreement dated January 1, 1909, at £60,000, payable as follows:—

£25,000 in £1 Ordinary Shares of the Company issued as fully paid.

£25,000 in 5 per cent. Debentures, repayable in 1919 at 105.

£10,000 in cash, payable on February 1, 1909.

The Company was duly registered with a nominal capital of £100,000, consisting of 100,000 Ordinary Shares of £1 each. On January 15, 1909, 15,000 Ordinary Shares were issued to the public and fully paid up with the exception of £150 calls in arrear upon the allotment call.

The following is a list of the assets and liabilities taken over by the Company:—

	£	s.	d.
Sundry creditors	10,000	0	0
Bills payable	5,000	0	0
Sundry debtors	£20,000		
Less reserve for bad debts	1,500		
	<hr/>		
	18,500	0	0
Stock in trade	10,000	0	0
Machinery and plant	25,000	0	0
Loose tools	4,000	0	0
Bills receivable	2,500	0	0
Cash at Bank	5,000	0	0

Make the Journal entries necessary for opening the Company's books and the entries required to record the issue of shares to the public, assuming that 10s. per share is payable on application and 10s. per share on allotment.
[London Chamber of Commerce, 1909.]

Exercise 68.

A business was bought for £3500 on the basis of the following Balance-Sheet dated December 31, 1908 :—

	£	s.	d.		£	s.	d.
Creditors	2000	0	0	Debtors	2500	0	0
Capital	3321	0	0	Plant	942	0	0
				Stock	1477	0	0
				Profit and Loss Account	402	0	0
	<hr/>				<hr/>		
	5321	0	0		5321	0	0

The business was then converted into a Limited Liability Company with £4000 Capital (including shares to the vendor for his interest), of which £500 subscribed in cash was paid into the Bank for working capital. Prior to commencing business, the Directors determined to write off £250 from the Debts, £42 from the Plant, and £177 from the Stock. At the end of the first half-year of trading there was a loss, independent of the depreciation, of £120. Assuming that the Creditors, Debtors, Plant and Stock remain as they were in 1908, subject to the depreciation just allowed, draw up a Balance-Sheet as at June 30, 1909.

[Soc. of Incorporated Accountants, 1909.]

Exercise 69.

The A.B.C. Company, with a nominal capital of £150,000, divided into 75,000 Ordinary Shares, and 75,000 Preference Shares of £1 each, is formed to take over the business of W. Williamson as on December 31, 1909, on which date W. Williamson's Balance-Sheet was as under :—

LIABILITIES.				ASSETS.			
	£	s.	d.		£	s.	d.
Sundry Liabilities	5,000	0	0	Sundry Assets	100,000	0	0
Reserve Account	250	0	0	Cash at Bank	2,000	0	0
W. Williamson :—				Book debts	4,000	0	0
Capital Account	103,750	0	0	Stock	3,000	0	0
	<hr/>				<hr/>		
	109,000	0	0		109,000	0	0

Williamson agrees to sell to the Company the Sundry Assets at their book value, the Book Debts at the amount at which they appear in the Balance-Sheet, and the Stock at £2500, paying all the business liabilities himself.

The total purchase price payable by the Company is fixed at £120,000, which Williamson agrees to accept as to £75,000 in fully paid Ordinary Shares, £30,000 in fully paid Preference Shares, and the balance in cash.

16,000 Preference Shares are issued to the public at a premium of 2s. 6d. per share, and allotted and paid in full. The purchase is completed, and Williamson is allotted the shares and receives the cash to which he is entitled. Preliminary expenses paid by the Company amount to £500. Give the entries in the Company's Journal necessary to record the above transactions, show the Vendor's account in the Company's books, and the Balance-Sheet of the Company, after the transactions have been completed. [Inst. of C. A., May, 1910.]

Exercise 70.

The Brown Box Company, Ltd., was registered with a nominal Capital of £10,000, divided into 5000 Ordinary Shares of £1 each and 5000 six per cent. Preference Shares of £1 each. From the following Trial Balance, extracted from the books of the Company, prepare a Trading Account and a Profit and Loss Account for the year ended December 31, 1909, and a Balance-Sheet as on that date:—

TRIAL BALANCE.

	DR.			CR.		
	£	s.	d.	£	s.	d.
Ordinary Share Capital				4,800	0	0
Preference Share Capital				8,000	0	0
Freehold land and buildings	3,700	0	0			
Furniture and fixtures	946	6	10			
Stock (December 31, 1908)	1,929	14	7			
Plant and machinery	1,727	10	2			
Rates and taxes	87	14	1			
Carriage	422	4	8			
Trade expenses	39	1	1			
Lighting and heating expenses	72	2	6			
General expenses	127	16	10			
Discount Account (balance)				13	2	0
Preference Share Dividend (paid during the year)	171	0	0			
Ordinary Share Dividend (paid during the year)	114	0	0			
Bad Debt Reserve (as on Dec. 31, 1908)				188	14	8
Manufacturing wages	2,014	1	9			
Salaries	505	14	8			
Sales				10,124	14	2
Do. returns	101	2	10			
Insurance	39	1	2			
Directors' fees	50	0	0			
Purchases	4,129	16	8			
Do. returns				94	12	4
Sundry debtors	3,764	17	10			
Sundry creditors				2,144	5	1
Profit and Loss Account (balance December 31, 1908)				472	7	2
Bank charges	10	2	1			
Cash at Bank	822	5	7			
Do. in hand	68	2	1			
	20,837	15	5	20,837	15	5

Before preparing the accounts (as above required), the following adjustments are necessary :—

- (1) Charge Depreciation on land and buildings at $2\frac{1}{2}$ per cent. per annum.
- (2) " " furniture and fixtures at 5 per cent. per annum.
- (3) " " plant and machinery at 10 per cent. per annum.
- (4) Make the Bad Debt Reserve up to £400.
- (5) Carry forward the following unexpired amounts :—

	£	s.	d.
(a) Insurance	9	7	6
(b) Rates and taxes	17	8	2

The value of the stock on December 31, 1909, was certified by the Managing Director at £1721 17s. 3d. [R. Soc. of A., Stage II., 1910.]

Exercise 71.

The Highburn Manufacturing Co., Ltd., with a Nominal Capital of 40,000 Ordinary Shares of £1 each, and by the Memorandum and Articles of Association have power to issue 200 Debentures of £50, each bearing interest at $4\frac{1}{2}$ per cent. per annum.

On June 30, 1909, the Ledger balances were abstracted as follows :—

	£	s.	d.
Share Capital (issued 40,000 shares of £1 each, 15s. called on each)	30,000	0	0
Calls in arrear	205	0	0
Debentures issued, 100 at £50	5,000	0	0
Stock (July 1, 1908)	6,537	0	0
Purchases	22,448	0	0
Returns to creditors	1,745	0	0
Sales	46,728	0	0
Returns from customers	1,174	0	0
General trade expenses	1,014	0	0
Wages	18,632	0	0
Salaries	2,042	0	0
Travelling expenses	758	0	0
Advertising	870	0	0
Rents, rates, taxes, and insurance	858	0	0
Discounts Dr. Balance	314	0	0
Bank interest and commission Dr.	114	0	0
Bad debts written off	249	0	0
Premises	12,450	0	0
Machinery and plant	18,750	0	0
Fixtures and fittings	3,750	0	0
Sundry debtors	12,160	0	0
Sundry creditors	7,728	0	0
Interest paid on Debentures	214	0	0
Dividend paid (in August, 1908)	1,415	0	0
Reserve Fund	5,000	0	0
Reserve for Bad Debts (Balance at July 1, 1908)	760	0	0
Cash in hand	43	0	0
Balance at Bank Cr.	1,427	0	0
Balance of Profit and Loss Account (July 1, 1908)	3,463	0	0
The Stock on hand on June 30, 1909 = £6900			

Draw up a Trading and Profit and Loss Account, after making the following adjustments:—

- (a) Depreciate the machinery and plant by 10 per cent., the fixtures and fittings by 10 per cent.
- (b) Make up the Reserve for Bad Debts to $7\frac{1}{2}$ per cent. of the book debts.
- (c) Insurances are paid in advance to the extent of £96.
- (d) Make out a Balance-Sheet as at June 30, 1909.

[Mid. Counties U. of E. Inst., 1910.]

Exercise 72.

The Utopia Motor Works, Ltd., was registered and commenced business on February 1, 1906, with a Nominal Capital of £200,000, divided into 5000 Preference Shares of £10 each, and 150,000 Ordinary Shares of £1 each. Of the latter 32,000 were allotted as fully paid to the vendors. The public subscribed for 4500 Preference Shares, the whole of which were called up and paid for, and 22,640 Ordinary Shares on which 15s. per share had been called up before January 31, 1910, when the Ledger balances, in addition to the balances representing the above transactions, were as follows:—

BALANCES OF LEDGER ACCOUNTS.

January 31, 1910.		£	s.	d.
Loans from sundry persons		990	0	0
Plant (including additions during the year, £723)		36,803	0	0
Repairs Equalization Reserve		2,648	0	0
Sales		107,866	0	0
Rates, taxes, gas, water, and insurance (including rates for one year to March 31, 1910, £126, and insurance for one year to March 31, 1910, £240)		872	0	0
Stock (February 1, 1909)		14,685	0	0
Bank Loan		3,400	0	0
Goodwill		22,000	0	0
Sundry trade debtors		8,700	0	0
Bills Payable		11,429	0	0
Calls in arrear (Ordinary Shares)		806	0	0
Sundry trade creditors		18,176	0	0
Preliminary expenses		537	0	0
Purchases (including carriage)		57,833	0	0
Wages (manufacturing)		53,129	0	0
Salaries and commission		1,263	0	0
Directors' fees		2,000	0	0
Transfer fees		17	0	0
Bad debts		1,106	0	0
Repairs		2,182	0	0
Freehold land and buildings		26,782	0	0
Loose tools		8,001	0	0
Bad Debt Reserve as on February 1, 1909		807	0	0
Advertising		2,190	0	0
Office expenses		203	0	0
Interest on loans		161	0	0
Profit and Loss Account. Credit balance brought forward, February 1, 1909		97	0	0
Cash at Bank and in hand		87	0	0

D.A.B.

2 E

You are required to prepare Trading Account and Profit and Loss Account for the year ended January 31, 1910, and a Balance-Sheet as on that date, from the above balances, after making the following adjustments:—

- (a) Reserve for Interest on Loans accrued to January 31, £26.
- (b) Reserve for the proportion of Rates and Insurance paid in advance.
- (c) The Stock on hand on January 31, 1910, was valued at £19,822.
- (d) The Loose Tools on hand on January 31, 1910, were valued at £7285.
- (e) The Directors decided (1) that two-thirds of the expenditure on advertising was to be carried forward in suspense; (2) that the whole of the expenditure on repairs was to be charged against the Repairs Reserve; (3) that the Reserve for Bad Debts was to be fixed at 4 per cent. on the value of the Trade Debtors; (4) that 5 per cent. depreciation was to be written off the value of the Plant as on February 1, 1909; and (5) that £361 was to be written off for depreciation of Buildings.

[R. Soc. of Arts, 1910.]

Exercise 73.

The Wayside Boot Co., Ltd., was registered with a nominal Capital of £50,000, divided into 10,000 Preference Shares of £1 each, and 800,000 Ordinary Shares of 1/- each.

On December 31, 1909, a Trial Balance, containing the following balances, was extracted from the books of the Company:—

LEDGER BALANCES.		£	s.	d.
Ordinary Share Capital Account		35,820	0	0
Preference Share Capital Account		10,000	0	0
Pension Fund		4,980	0	0
Goodwill Account		5,000	0	0
Debenture capital (100 five per cent. debentures of £50 each)		5,000	0	0
Pension Fund investments		4,540	0	0
Stable expenses		421	0	0
Machinery and Plant Account		7,455	0	0
Transfer fees received		1	10	0
General expenses		989	0	0
Cost of trade catalogues		256	0	0
Bank charges		17	0	0
Company's contribution to the Pension Fund		500	0	0
Bonus paid to employees		763	0	0
Gas, electricity, and water		1,567	0	0
Manager's salary		1,500	0	0
Purchases		97,651	0	0
Purchases returns		1,243	0	0
Interest paid on debentures		238	10	0
Directors' fees		250	0	0
Boxes and packing		674	0	0
Bills payable		2,162	0	0
Discounts allowed		1,251	0	0
Discounts received		1,978	0	0
Sales		131,276	0	0
Sales returns		946	0	0
Carriage		3,460	0	0
Stock in hand (January 1, 1909)—				
Finished goods		11,264	0	0
Materials and unfinished goods		8,457	0	0

	£	s.	d.
Cost of repairs to machinery and plant	298	0	0
Debtors as per Sales Ledger	16,245	0	0
Creditors as per Bought Ledger	11,747	0	0
Bad debts written off	815	0	0
Factory wages	7,299	0	0
Postage and stationery	444	0	0
Horses and vans	946	0	0
Audit fee and legal charges	274	0	0
Rent, rates, taxes and insurance	1,178	0	0
Office salaries	4,216	0	0
Bills receivable	1,981	0	0
Advertising	470	0	0
Freehold land and buildings	18,442	0	0
Cash at Bank	8,259	0	0
Cash at Bank (Pension Fund)	440	0	0
Cash in hand	75	0	0
Profit and Loss Account (debit balance, brought forward from last year)	1,236	0	0

Before closing the books the following adjustments are necessary:—

- i. One month's carriage is owing and has not been passed through the books £ 472 0 0
- ii. Rent due to landlord but not provided for 150 0 0
- iii. Value of unexpired insurance premium 197 0 0
- iv. Wages paid in advance 84 0 0
- v. Reserve to be created for bad debts 750 0 0
- vi. Write off the following depreciations:—
 - (a) Machinery and plant 10 per cent.
 - (b) Horses and vans £146
 - (c) Land and buildings 2½ per cent.

The stock as on December 31, 1909, was valued as follows:—

	£	s.	d.
Finished goods	13,241	0	0
Raw materials and unfinished goods	5,192	0	0

You are required to prepare Trading and Profit and Loss Accounts for the year ended December 31, 1909, and a Balance Sheet as on that date.
[London Chamber of Commerce, 1910.]

Exercise 74.

A Limited Company has a nominal capital of £250,000 in 25,000 shares of £10 each. Of these, 4000 shares were issued to the vendors as fully paid, 8000 shares were subscribed for by the public, and during the first year £5 per share was called up. 2000 shares were issued, as fully paid, to persons other than the vendors, in payment for property purchased. On the 8000 shares subscribed for by the public there had been paid at the end of the first year:—

- On 6000 shares, the full amount called.
- On 1250 shares, £4 per share.
- On 500 shares, £3 per share.
- On 250 shares, £2 per share.

The Directors forfeited the 750 shares on which less than £4 had been paid.

You are required to submit Journal entries recording the capital transactions of the Company, and to set out the capital as it should appear in the Company's Balance-Sheet at the end of the first year.

[London Chamber of Commerce, 1909.]

Exercise 75.

From the particulars given in the following Trial Balance of John Jones & Co., Ltd., prepare a Trading and Profit and Loss Account for the year ended December 31, 1909, and a Balance-Sheet.

The Reserve for Bad Debts is to be brought up to 5 per cent. on the Sundry Debtors, and depreciation is to be written off at the undermentioned rates:—

Fixed plant and machinery	7½ per cent.
Loose plant and tools	10 per cent.
Office furniture	5 per cent.

The Authorized Capital of the Company is £80,000 divided into 50,000 Ordinary Shares of £1 each, and 30,000 5 per cent. Preference Shares of £1 each.

TRIAL BALANCE, December 31, 1909.

	£	s.	d.	£	s.	d.
25,000 Ordinary Shares, fully called up				25,000	0	0
30,000 Preference Shares, 10s. per share called up				15,000	0	0
2000 £10 4½ per cent. Debentures				20,000	0	0
Freehold land and buildings	19,250	0	0			
Fixed plant and machinery	15,000	0	0			
Stock, December 31, 1908	22,000	0	0			
Loose plant, tools, etc.	8,000	0	0			
Sales				65,330	0	0
Purchases	33,000	0	0			
Returns	330	0	0			
Management expenses (including salaries, carriage outwards, rates, gas, water and general charges)	8,910	0	0			
Carriage inwards	1,500	0	0			
Wages	18,000	0	0			
Bad debts written off	600	0	0			
Directors' fees	1,000	0	0			
Interest on Bank overdraft	400	0	0			
Ordinary dividend for year to December 31, 1908	1,250	0	0			
Debenture interest to December 31, 1909	900	0	0			
Preference dividend to December 31, 1909	750	0	0			
Profit and Loss Account, balance December 31, 1908				8,050	0	0
Reserve Account				15,000	0	0
Sundry debtors	19,500	0	0			
Sundry creditors				3,300	0	0
Bank overdraft				4,000	0	0
Office furniture	500	0	0			
Transfer fees				10	0	0
Reserve for Bad Debts, December 31, 1908				325	0	0
Income Tax	125	0	0			
	151,015	0	0	151,015	0	0

The Stock at December 31, 1909, was £22,000.

[Inst. of C. A., June, 1910.]

Exercise 76.

The Eldorado Cigarette Company, Ltd., was registered on April 1, 1909, with a nominal Capital of £30,000, divided into 25,000 Ordinary Shares of £1 each, and 500 Preference Shares of £10 each; 22,179 Ordinary Shares were allotted (upon application), called up and fully paid, with the exception of £32 ("Calls in arrear"), while the whole of the Preference Shares were allotted and paid up before March 31, 1910.

On March 31, 1910, in addition to the above transactions, the following were the Ledger Accounts' Balances of the Company. You are required, after making the adjustments stated below, to prepare a Trading Account and a Profit and Loss Account for the year ended March 31, 1910, and a Balance-Sheet as on that date. The stock-in-hand as on March 31, 1910, was valued at £16,455.

LEDGER ACCOUNTS' BALANCES.

	£	s.	d.
Cash in hand	129	0	0
Rent	620	0	0
Gas and electric light	182	0	0
Rates and taxes	203	0	0
Licence and insurance	209	0	0
Trade expenses	506	0	0
Electric power	63	0	0
Interest and discount (Debit Balance)	3,275	0	0
Sales—Tobacco	25,693	0	0
Cigarettes	61,460	0	0
Shorts and sundries	7,565	0	0
Sales Returns—Tobacco	427	0	0
Cigarettes	1,086	0	0
Shorts and sundries	193	0	0
Purchases—Tobacco	74,029	0	0
Sundries	2,300	0	0
Boxes	3,053	0	0
Purchases Returns—Tobacco	1,745	0	0
Sundries	162	0	0
Boxes	47	0	0
Bad debts (written off)	247	0	0
Wages (manufacturing)	7,517	0	0
Salaries	1,587	0	0
Carriage	896	0	0
Travellers' salaries, commission and expenses	1,479	0	0
Printing and postage	347	0	0
General expenses	98	0	0
Plant and machinery	3,420	0	0
Fixtures and fittings	1,160	0	0
Advertising and samples	904	0	0
Profit and Loss Account (Debit Balance)	479	0	0
Legal expenses	53	0	0
Audit fee	105	0	0
Stock	17,532	0	0
Bad Debts Reserve	543	0	0
Sundry creditors	22,970	0	0
Sundry debtors	24,360	0	0
Cash at bankers	927	0	0

(Continued.)

ADJUSTMENTS.				£	s.	d.
Insurance paid in advance	.	.	.	49	0	0
Rates Do.	.	.	.	32	0	0
Owing for salaries	.	.	.	40	0	0
Do. electric light	.	.	.	34	0	0
Do. electric power	.	.	.	18	0	0
Depreciation, plant and machinery	.	.	.	10	per cent.	
Do. fixtures and fittings	.	.	.	7½	Do.	

Reserve for Bad and Doubtful Debts, 2½ per cent. on the amount of the Sundry Debtors. [Inst. of C. A., Final, May, 1910.]

Exercise 77.

(a) It is usual for preliminary expenses to appear in a Company's Balance-Sheet during the first few years of its existence. What justification is there for the practice, and what different kinds of expenditure come fairly under this heading? [Inst. of Secretaries, 1910.]

(b) 1. Explain what is meant by—

Nominal Capital.
Subscribed Capital.
Called-up Capital.
Paid-up Capital.

2. A Limited Company has issued £40,000 4½ per cent. First Mortgage Debenture Stock, interest payable March 31 and September 30. Being in possession of surplus funds, it purchases £1000 of this Debenture Stock at 95 per cent. on July 1, 1910. The Company's year ends September 30. State fully how this transaction should be dealt with in the books, and also in the Balance-sheet at September 30, 1910.

[West Riding C. C., 1910.]

(c) You are preparing the Balance-sheet of a Limited Company of which you are the chief accountant, and find that there are bills under discount amounting to £10,750. On going through the books you discover facts which point to the probability that £1000 worth of these bills will be dishonoured on maturity, but that there is a reasonable chance of eventually receiving 10s. in the £ on the £1000. How would you deal with these bills under discount, and how should they appear in the Company's published accounts? [London Chamber of Commerce, 1909.]

Exercise 78.

A Syndicate purchased the business of an electrical engineer and sold it to a Limited Company on the following terms:—

All expenses up to allotment to be borne by the vendors.

	Cost to Company.			Cost to Syndicate.		
	£	s.	d.	£	s.	d.
Stock-in-trade	45,000	0	0	40,000	0	0
Lease and trade fittings	8,000	0	0	5,000	0	0
Plant and machinery	25,000	0	0	20,000	0	0
Goodwill	15,000	0	0	7,000	0	0
Patents	7,000	0	0	10,000	0	0

The Company's capital was £120,000, in 100,000 fully paid shares of £1 each, which were issued and wholly subscribed for, and 20,000 £1 Deferred

Ordinary Shares which the Syndicate agreed to accept in part payment of the purchase price, the balance being payable in cash.

Open the books of the Company by Journal entries only in accordance with the foregoing. [Soc. of Incorporated Accountants, 1910.]

Exercise 79.

The A.B. Co., Ltd., went into voluntary liquidation on August 1, 1908. The issued Capital of the Company was 2500 shares of £1 each, 10s. paid up.

The Liquidator called up the remaining 10s. per share on September 1, 1908. One thousand shares stood in the name of the X.Y. Co., Ltd., which was also in liquidation. There was therefore due from the Liquidator of the X.Y. Co., Ltd., the sum of £500 for calls, and he admitted a claim for that amount, and paid to the Liquidator of the A.B. Co., Ltd., a first and final dividend thereon of 5s. in the £, on February 1, 1909.

The X.Y. Co., Ltd., were creditors of the A.B. Co., Ltd., for goods supplied to the extent of £800, this amount being admitted as correct.

The assets of the A.B. Co., Ltd., realized £1500, and the costs of the liquidation amounted to £300. The claims admitted amounted to £5000, including the £800 due to the X.Y. Co., Ltd.

Prepare a statement as at March 1, 1909, for presentation to the final meeting of the A.B. Co., Ltd., showing what dividend would be payable to the creditors. [Inst. of C. A., 1910.]

Double Account System—

Exercise 80.

(a) Give a *pro forma* example of a Capital Receipts and Expenditure Account under the double account system.

State briefly how depreciation can be provided for under this system of accounting.

(b) The following are the balances of the Great Southern Railway for the half-year ending December 31, 1909. You are requested to make out in the prescribed form: 1. Capital Account; 2. Revenue Account; 3. Net Revenue Account; 4. General Balance-Sheet.

	£	s. d.
Ordinary Stock	5,192,500	0 0
4 per cent. Preference Stock	2,702,711	0 0
Debenture Stock	1,526,258	0 0
Premiums received	55,653	0 0
Expended upon lines open for traffic to June 30, 1909	9,181,704	0 0
" on the above during current half-year	44,304	0 0
" upon working stock to June 30, 1909	616,961	0 0
" " " during current half-year	654	0 0
" " maintenance of way, stations, etc.	38,373	0 0
" " locomotive power	93,008	0 0
" " carriage and wagon repairs	14,358	0 0
" " traffic expenses	61,098	0 0
" " general charges	13,342	0 0
" " shipping expenses	18,199	0 0
" " dock and harbour expenses and repairs	9,371	0 0
" " law charges	2,697	0 0
" " Parliamentary expenses	3,834	0 0

	£	s.	d.
Expended upon compensation	354	0	0
" " mileage and demurrage	447	0	0
" " rates and taxes	31,060	0	0
" " Government duty	395	0	0
Receipts from passengers	106,401	0	0
" " parcels, carriages and horses	9,578	0	0
" " mails	2,641	0	0
" " merchandise	43,508	0	0
" " minerals	280,448	0	0
" " shipping	19,355	0	0
" " docks and harbours	39,501	0	0
" " rents	3,977	0	0
Interest on Debenture Stock	22,894	0	0
Rents payable on leased lines, guarantees, etc.	31,876	0	0
Balance to credit of Net Revenue Account, June 30, 1909	62,666	0	0
General Interest Account—Credit Balance	290	0	0
Cash in hand and at Bank	45,528	0	0
General stores—Stock on hand	39,368	0	0
Traffic accounts due to the Company	73,658	0	0
Amounts due from other Companies	12,356	0	0
" " Post Office	1,446	0	0
Sundry debtors	25,108	0	0
Unpaid dividends and interest	2,612	0	0
Debts due to other Companies	59,730	0	0
Amount due to the Clearing House	12,417	0	0
Sundry creditors and Suspense Accounts	198,806	0	0
Fire Insurance Fund	23,945	0	0
Reserve Fund	22,419	0	0
Employees' Savings Bank deposits	17,467	0	0

[N. U. T., 1910.]

Depreciation, Reserves and Sinking Funds—

Exercise 81.

(a) In preparing the Profit and Loss Account of a manufacturing firm, what different methods are there of providing for the waste of an asset owing (a) to wear and tear, as in the case of machinery; or (b) effluxion of time, as in the case of a building erected upon leasehold land?

What method do you favour for providing for such waste, and why? State briefly what entries would be required to carry your suggestions into effect?

[London Chamber of Commerce, 1906.]

(b) How would you treat a lease, say for a term of five years, in the accounts of the lessee? Give illustrations.

[Soc. of Incorporated Accountants, 1910.]

(c) A company having a lease standing in their books at £5000, decide to provide for depreciation by taking out a policy for leasehold redemption. How would you deal with the annual premiums in the books; and how would you adjust the accounts when the lease expires and the policy matures?

[R. Soc. of Arts, 1909.]

Income Tax Accounts—

Exercise 82.

(a) In preparing accounts for submission to the surveyor of taxes (under Schedule D), how would you deal with the undermentioned items?—

1. Interest on Bank Deposit Account.
2. Rents from cottage property, sub-let.
3. Reserve (10 per cent.) for bad debts.
4. Depreciation (8 per cent.) on machinery and plant.
5. Replacements of printing type. [Inst. of C. A., May, 1909.]

(b) State which of the following are allowed as expenses in arriving at profits for income-tax purposes:—

- Interest on capital.
- Interest on loans.
- Interest on Bank overdraft.
- Depreciation of investments.
- Depreciation of plant.
- Sinking fund for leasehold redemption.
- Bad and doubtful debts.
- Renewals of plant.
- Royalties on patents.

In connection with any of the items which you think would be disallowed state whether and how the taxpayer can recoup himself.

[Inst. of C. A., Inter., May, 1910.]

Exercise 83.

You are required to prepare the return, for income-tax assessment under Schedule (D), for the current year from the following particulars, which relate to the business of Messrs. Boorman and Bashall, who share profits equally.

The Profit and Loss Accounts prepared by the firm's accountants showed the following results: 1907 profit, £3219; 1908 profit, £1294; 1909 profit, £1984.

Before arriving at the above profits the following items were charged in the accounts:—

	1907.	1908.	1909.
	£ s. d.	£ s. d.	£ s. d.
Interest on capital	490 0 0	510 0 0	520 0 0
Income Tax (Schedules (D) & (A))	67 0 0	72 0 0	84 0 0
Partners' salaries	300 0 0	300 0 0	300 0 0
Depreciation on plant	150 0 0	165 0 0	151 0 0
Charitable donations	15 0 0	16 0 0	20 0 0

The firm's premises are freehold and are assessed for Property Tax (Schedule (A)) at £600 per annum. The surveyor of taxes for the district declines to allow the above provisions for depreciation, but agrees to an annual allowance of £100 for wear and tear.

Mr. Bashall holds a policy of assurance, with a British office, upon his own life, the annual premium upon which amounts to £56.

[London Chamber of Commerce, 1910.]

Exercise 84.

The following is Smith and Brown's Profit and Loss Account for the year ended March 31, 1909:—

	£ s. d.		£ s. d.
Interest on capital	200 0 0	Balance from Trading	
Income Tax, Schedule D	350 0 0	Account	15,000 0 0
Income Tax, Schedule		Rents receivable	120 0 0
A (on £300)	15 0 0		
Amount added to reserve			
for bad and doubtful			
debts	60 0 0		
Bad debts written off	180 0 0		
Sundry management ex-			
penses	6,050 0 0		
Replacements and re-			
newals of plant and			
machinery	750 0 0		
Depreciation of plant			
and machinery (5 per			
cent. per annum)	100 0 0		
Interest on Bank over-			
draft	70 0 0		
Partners' salaries	3,000 0 0		
Balance carried to Capital			
Account	4,345 0 0		
	<u>15,120 0 0</u>		<u>15,120 0 0</u>

The profits assessable for Income Tax, Schedule D, for the two previous years were £7800 and £7512 respectively. Give an account showing the amount upon which Schedule D tax must be paid for the year ending April 5, 1910.
[Inst. of C. A., June, 1910.]

Exercise 85.

C. and D. carry on business in partnership. The following are the particulars of the firm's profits for the three years ending 1908:—

	1906	1907	1908
	£ s. d.	£ s. d.	£ s. d.
Share of Net Profits—C., two-thirds	1200 0 0	1900 0 0	1100 0 0
D., one-third	600 0 0	650 0 0	550 0 0
Salary—C.	200 0 0	200 0 0	200 0 0
D.	400 0 0	400 0 0	400 0 0
Interest on Capital—C.	350 0 0	400 0 0	450 0 0
D.	150 0 0	200 0 0	250 0 0
Depreciation allowed	900 0 0	900 0 0	900 0 0
Income Tax, Schedule D.	180 0 0	140 0 0	140 0 0

From above figures prepare a return showing the liability of each partner for the year 1909-10 for Income Tax Assessment as required by Surveyor of Taxes.
[Soc. of Incorporated Accountants, June, 1909.]

Exercise 86.

Prepare a statement for claim for repayment of Income Tax on Life Insurance premiums from the following particulars :—

A.B.'s income for the year 1907-8 was as follows :—

£250 as Director of the A.B. Trading Company, Limited.

£1000, being dividend at the rate of 10 per cent. on £10,000 of shares in the said Company, received free of Income Tax.

£190, being dividend at the rate of 10 per cent. on £2000 of shares in Harley's Stores, Limited, less tax.

He owned property which was assessed under Schedule A at £300 net.

He also owned the house in which he lived, the net assessment under Schedule A being £100.

He paid the following sums for Life Assurance :—

Scottish and Irish Life Assurance Society—Annual premium £150.

Anglo-American Insurance Company, Limited—Annual premium £180.

Show what would be the amount he would be entitled to be repaid.

[Inst. of C. A., Final, May, 1909.]

Exercise 87.

The books of Messrs. John Highball & Sons are closed in each year on December 31. In preparing the return of the firm for the purpose of Income Tax (Schedule D) for the year 1909-10, how would you deal with the undermentioned items ?—

- (a) Salary paid to Robert Highball (a partner) of £300 per annum; tax upon which had been paid, under his separate assessment, up to April 5, 1908.
- (b) "Gifts and Subscriptions." In 1906, £138 10s.; 1907, £121 12s.; 1908, £142. In each year a subscription of £50 was paid to the local hospital, in recognition of services rendered to the firm's employees. The remainder of the above items consisted of Christmas gifts.
- (c) In May, 1908, a branch business was closed, and the plant and fixtures sold at a loss of £1200 10s., which sum was charged against the profits of the year.
- (d) In June, 1908, the firm bought shares in a Rubber Company, as a speculation, and subsequently (October, 1908), sold them at a profit of £280, which sum was credited in the Profit and Loss Account for the year. [Inst. of C. A., Final, May, 1910.]

Branch Accounts—

Exercise 88.

The London and Westminster Grocery Co., Ltd., has a retail branch in Manchester which is supplied with all goods from London. The branch shop keeps its own Sales Ledger, receives cash against Ledger accounts, and remits the whole of the cash received daily to the Head Office. All wages and branch expenses are drawn for by cheque weekly from the Head Office upon the imprest system.

From the undermentioned particulars supplied by the branch manager show how the branch accounts would appear in the Head Office books and prepare a Profit and Loss Account for the branch shop for the six months to December 31, 1907.

	£	s.	d.
Six months' credit sales	2387	0	0
Returns inwards	20	0	0
Cash received on Ledger accounts	2384	0	0
Cash sales	1214	0	0
Stock, July 1, 1907	720	0	0
Stock, December 31, 1907	1121	0	0
Debtors, July 1, 1907	1227	0	0
Goods received from Head Office	2178	0	0
Rent, taxes, etc., paid	375	0	0
Wages and sundry expenses paid	396	0	0

[London Chamber of Commerce, 1908.]

Exercise 89.

A Limited Company has its Head Office in London, and a number of retail shops in various towns, to which all goods are invoiced from the Head Office at selling prices. What system would you recommend for dealing with these branches, and how would the stocks at the branches appear in the Balance-Sheet of the Company? Give a *pro forma* example, stating the class of business you select for the purpose.

[Inst. of C. A., 1910.]

Exercise 90.

Messrs. Baxter & Sons, whose head office is in London, remitted £500 to their Manchester branch on December 30, 1909. The books of the head office and the branch are balanced as on December 31 each year. The above-mentioned remittance did not reach Manchester until the morning of January 1, 1910. How would you deal with the amount in question in the Trial Balances of the head office and branch and when preparing the combined Balance-Sheet of the whole business?

[London Chamber of Commerce, 1910.]

Exercise 91.

A retail trader has four shops (A, B, C, and D). His total figures for the year are Sales A £4000, B £3600, C £3800, D £2000. The stock at the beginning of the year is £5500, and at the end £5300. The purchases are £9800. The expenses not kept separately for each shop are printing, stationery, and advertising £48, trade expenses £210.

The rents and rates are A £150, B £110, C £180, D £115, and the wages are A £218, B £194, C £234, D £180. On the basis that each shop earns the same rate of gross profit, prepare a statement showing the net profits at each shop, dividing the expenses in proportion to the business done.

[West Riding C. C., 1910.]

Exercise 92.

The Manufacturing Company, Limited, has a nominal capital of 15,000 shares of £10 each; and a subscribed capital of 8000 shares, fully paid up. It manufactures goods for sale at its two branches, A and B, which sell no goods other than those of the Company's manufacture. From the following Trial Balance, extracted from the books of the head office and branches as on December 31, 1908, prepare, for submission to the directors, Trading and Profit and Loss Accounts for the head office and for each of the branches for the year ended December 31, 1908, and a Balance-Sheet of the Company as a whole as on that date.

EXAMINATION QUESTIONS

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NOTES:

Stocks on hand valued as on December 31, 1908, were:—

	£	s.	d.
Head office	10,527	4	5
Branch A	8,024	13	1
" B	1,927	9	4

Write off the following depreciations :—

Head office plant and machinery	.	.	.	.	10%
Furniture and fixtures	Head Office	.	.	.	5%
"	Branch A	.	.	.	5%
"	Branch B	.	.	.	5%

Create a reserve for bad debts of 2½% on the sundry debtors. Write off £5000 from goodwill, and carry £10,000 to reserve. All carriage on the goods sent to the branches is paid by the head office.

TRIAL BALANCE, December 31, 1908.

Dr.	Head Office.			Branch A.			Branch B.		
	£	s.	d.	£	s.	d.	£	s.	d.
Freehold premises :—									
Head Office	40,000	0	0						
Branch A	10,000	0	0						
Branch B	10,000	0	0						
Goodwill	30,000	0	0						
Plant and machinery, head office	8,000	0	0						
Furniture and fixtures—									
Head Office	500	0	0						
Branch A	700	0	0						
Branch B	800	0	0						
Cash at Bank	6,790	1	6						
Cash in hand	14	7	2	88	2	9	38	9	5
Stock in hand, Dec. 31, 1907	11,245	5	1	2,812	3	7	1,994	17	6
Purchases (less returns)	65,090	5	11						
Wages	39,851	1	11	2,419	0	0	2,622	3	4
Salaries	1,500	0	0	247	14	4	276	6	6
Carriage to branches	1,516	14	7						
Rates and taxes	323	2	9	442	5	7	328	14	4
General expenses	517	9	2	2,016	4	6	1,796	6	8
Goods from head office				94,167	2	3	44,267	0	2
Bad debts				1,552	8	2	746	17	11
Sundry debtors				9,620	2	9	5,370	3	2
*Income Tax	447	10	8						
*Directors' fees	1,000	0	0						
*Audit fee	105	0	0						
Branch A Current Account	301	18	3						
" B " "	3,353	0	8						
	231,855	17	8	113,360	4	11	57,440	19	0

- No apportionment of these items need be made.

(Continued.)

EXERCISES AND

TRIAL BALANCE, December 31, 1908 (*cont.*).

CR.	Head Office. £ s. d.	Branch A. £ s. d.	Branch B. £ s. d.
Share Capital	80,000 0 0		
Sundry creditors	11,247 18 2	541 6 6	547 12 1
Goods to Branch A	94,167 2 8		
" " B	44,267 0 2		
Sales (less returns)		112,517 0 2	53,540 6 8
Profit and Loss Account (balance)	2,174 2 1		
Head Office Current Account		301 18 8	3,353 0 8

[R. Soc. of A., 1909.]

Exercise 93.

An English company owns a tea plantation in Ceylon. All the tea produced is shipped to a London firm of tea brokers, who duly furnish Account Sales and remit proceeds to the London office of the company. The accounts of the detailed expenditure in Ceylon are kept in Indian currency, and are sent to the head office in London monthly. The Account Sales and the account of the remittances to Ceylon are kept in sterling.

What method would you adopt for dealing with the two currencies employed when writing up the head office books?

[London Chamber of Commerce, 1908.]

Exercise 94.

The Cinglese Tea Co., Ltd., has its head offices in London, whilst its plantations are situated in Ceylon.

The company has a nominal capital of £20,000 divided into 20,000 shares of £1 each.

The London Office Trial Balance at December 31, 1908, was as follows:—

	£ s. d.	£ s. d.
Subscribed capital—15,000 shares, fully paid		15,000 0 0
Ceylon estates—freehold land and buildings .	12,500 0 0	
Sales		82,500 0 0
Tea consigned from Ceylon (at 1s. 4d. per rupee)	18,000 0 0	
Freight and insurance	2,000 0 0	
Salaries and wages	2,500 0 0	
Travelling expenses	1,500 0 0	
Advertising	3,000 0 0	
Purchases	1,800 0 0	
Stock, December 31, 1907	1,500 0 0	
Rent, rates, and taxes	1,000 0 0	
! Electric light, water, etc.	200 0 0	
Trade expenses	500 0 0	
Bad debts	100 0 0	
Directors' fees	500 0 0	
Discounts	500 0 0	
Sundry debtors	3,000 0 0	
Sundry creditors		200 0 0
Remittances to Ceylon	15,000 0 0	
Ceylon Office Account		20,000 0 0
Reserve Fund		2,000 0 0
Cash in hand	100 0 0	
Cash at Bank	6,000 0 0	
	<u>69,700 0 0</u>	<u>69,700 0 0</u>

The Ceylon office Trial Balance at the same date was:—

	Rs.	Rs.
London Office Account	800,000	
Remittances from London		222,000
Tea consigned to London		270,000
Stock, December 31, 1907	12,000	
Purchases	80,000	
Salaries	18,000	
Cases and packing	12,000	
Carriage and cartage	15,000	
Trade expenses	9,000	
Wages	90,000	
Cash in hand and at Bank	6,000	
	<u>492,000</u>	<u>492,000</u>

Make out the Ceylon Trading Account and the Trading and Profit and Loss Account and Balance-Sheet of the Company.

The stock in Ceylon at December 31, 1908, was valued at 16,000 rupees, and the stock in London at that date was £2000.

The value of the rupee at December 31, 1908, was 1s. 3d.

[Inst. of C. A., May, 1909.]

Royalties and Dead Rents—

Exercise 95.

What do you understand by "royalty"? A colliery is leased to a company subject to a royalty of 6d. per ton on the output. A minimum, or dead, rent of £400 a year and allowances for "short workings" are provided for. The coal actually won in a series of years is 8000, 12,000, 16,000, 20,000 and 30,000 tons respectively. Draw up for those years in the company's books Royalties Accounts, Landlord's Accounts, and Short-Workings Accounts.

[Soc. of Incorporated Accountants, 1910.]

Exercise 96.

A colliery is worked under a lease granted by the lord of the manor at a royalty of 6d. per ton, but with a minimum annual rent of £1200, with power to recoup short workings. During the first year, 40,000 tons are raised; second year, 44,000 tons; third year, 52,000 tons; fourth year, 50,000 tons.

Make out Ledger accounts for royalties, lord of the manor, and overpaid royalties (= short workings); and say how you would deal with the balance of overpaid royalties when making up the Annual Accounts?

[N. U. T., 1910.]

Exercise 97.

The S.G. Collieries Co., Ltd., took, from the Duke of D., a lease of a coalfield for a period of twenty-five years from January 1, 1900, on a royalty of 6d. per ton of coal got, with a "dead rent" of £250, and power to recoup "short workings" during the first five years of the lease.

The annual outputs were as follows:—

1900	6,000 tons.
1901	9,000 "
1902	11,000 "
1903	12,000 "
1904	15,000 "

Write up the "Royalties," "Short Workings," and "Landlord's" Accounts, for the five years, in the Colliery Company's Ledger.
[Inst. of C. A., 1910.]

Payment by Instalments and Goods "On Sale or Return"—

Exercise 98.

The Hard Coal Colliery Co., Ltd., agreed to purchase from the International Wagon Co., Ltd., one hundred railway wagons, at the price of £50 per wagon, paying for the same by half-yearly instalments of £300, such instalments to include interest on the unpaid purchase money at the rate of 7 per cent. per annum.

The date of the purchase was January 1, 1906, and the first half-yearly instalment was due July 1, 1906.

Write up the Hard Coal Colliery Co.'s Account in the Wagon Co.'s books for three years, and also write up the Wagon Account in the Colliery Co.'s books for the same period.
[Inst. of C. A., June, 1910.]

Exercise 99.

The Birchets Mineral Water Co., Ltd., sends out cases of aerated water to chemists in various parts of the country "on sale or return." Each chemist is at once debited in the company's books with the water supplied at the price he is to obtain for it when sold, and is allowed to deduct 10 per cent. from this value when accounting for his sales. The personal accounts of all chemists so supplied are included in the Ledger balances at the end of the year. How would you deal with these accounts when preparing the Company's Profit and Loss Account and Balance-Sheet?
[London Chamber of Commerce, 1908.]

Cost Accounts—

Exercise 100.

(a) What books, in addition to the ordinary books of account, do you consider a manufacturer should keep in order to enable him to prepare a complete system of Cost Accounts? What information do you consider that such a system would provide?

[London Chamber of Commerce, 1908.]

(b) In a large manufacturing concern, goods inwards—both materials and stores—pass through the hands of a storekeeper. What system of book-keeping and check would you recommend to safeguard and control the distribution of both stores and materials? Fully explain same.

[Soc. of Incorporated Accountants, June, 1909.]

(c) Give what you consider would be a satisfactory ruling for the Cost Sheet of a manufacturer, with whose accounts you are familiar. State from what books of account the necessary information for the completion of the Cost Sheet would be obtained.
[R. Soc. of A., 1908.]

Exercise 101.

Messrs. John Berry and L. Flower were equal partners in the firm of Berry and Flower, iron smelters. The following balances of accounts appeared in their books as on December 31, 1908:—

	£	s.	d.
General wages	8,087	0	0
Coal used (including carriage)	6,047	0	0
Coke used (including carriage)	17,546	0	0
Wagon hire (credit balance)	278	0	0
Pig iron sales	54,056	0	0
Foundry consumption of pig iron	108	0	0
Branch railway income (leased to adjoining company)	705	0	0
Material and stores (including foundry charges and repairs to locomotives, etc.)	1,198	0	0
Ironstone used (including royalties, etc.)	5,707	0	0
Limestone used (including royalties, etc.)	1,513	0	0
Salaries of furnace experts	559	0	0
Travelling expenses	40	0	0
Rates and taxes	657	0	0
Land damages and compensation to neighbours	60	0	0
General charges	92	0	0
Manager's salary	500	0	0
Pig iron stock (December 31, 1907)	12,268	0	0
Interest (credit balance)	199	0	0
J. Berry (Drawings Account)	4,000	0	0
L. Flower (Drawings Account)	5,000	0	0
Works plant, rolling stock, etc.	38,080	0	0
Coal and coke wagons	3,150	0	0
Coal stock (December 31, 1908)	240	0	0
Coke (December 31, 1908)	688	0	0
Ironstone stock (December 31, 1908)	600	0	0
Limestone stock (December 31, 1908)	35	0	0
J. Berry (capital)	25,531	0	0
L. Flower (capital)	26,618	0	0
Sundry creditors (including all necessary adjustments).	18,782	0	0
Sundry debtors	15,829	0	0
Loans to workmen	218	0	0
Reserve for bad debts	909	0	0
Cash at Bank (deposit)	9,000	0	0
Cash at Bank (current)	1,523	0	0
Cash in hand	44	0	0

Write £2500 off Works Plant, Rolling Stock, etc., as depreciation.

Write £150 off Coal and Coke Wagons, as depreciation.

Make the Reserve for Bad Debts up to £1500.

No interest upon Capital or drawings is to be charged.

The stock of pig iron on December 31, 1908, was valued at £10,550.

Prepare a Pig Iron Production Account (showing the cost of pig iron produced); a Pig Iron Trading Account (showing the gross profit realized by pig iron sales); and a Profit and Loss Account for the year ended December 31, 1908, and a Balance-Sheet as on that date.

[Inst. of C. A., Final, 1909.]

Tabular System and Bankruptcy Statement of Affairs—

Exercise 102.

In what kinds of business can "Tabular Ledgers" be suitably employed? Give an example of such a Ledger with six specimen entries.

[Inst. of C. A., May, 1910.]

Exercise 103.

Prepare a Statement of Affairs of John Mason from the following particulars at March 31, 1909 :—

	£	s.	d.	Estimated to produce £	s.	d.
Freehold land and buildings	5000	0	0	4500	0	0
Book debts: good	1000	0	0			
" doubtful	300	0	0	100	0	0
" bad	500	0	0	nil.		
Stock-in-trade	1500	0	0	1000	0	0
Plant and machinery	1200	0	0	600	0	0
Cash in hand	25	0	0			
Household furniture and effects	300	0	0	180	0	0

Mortgage on the above Freehold Land and Buildings, £3500, at 5 per cent. The interest was paid to December 31, 1908.

Trade creditors, unsecured, £2500.

Cash " " £1000.

Bank Overdraft £1000, the Bank holding, as security, a policy for £2000, payable at death, premium £50 per annum, surrender value March 31, 1909, £600; Preferential Creditors for rent, rates, taxes, and wages, £300. [Inst. of C. A., 1909.]

Exercise 104.

Samuel Hobson, in business in the city, finds himself insolvent. From the various books and papers in his possession the following particulars as to his financial position are forthcoming. Prepare the Statement of Affairs for submission to his creditors and a Deficiency Account in the ordinary form :—

	£	s.	d.
Sundry Debtors: Good, £1280; doubtful, £2800 (estimated to produce £1000); bad, £700	4,780	0	0
Sundry freehold houses, etc. (estimated to produce £2000)	3,300	0	0
Shares: 1000 Ordinary Shares in the Cable Telegraph Co. valued at par	1,000	0	0
Mining and Railway Shares (2500 are held as security by partly secured creditors, and the balance by fully secured creditors)	9,450	0	0
Loss through the unsuccessful defence of an action at law	5,420	0	0
Business expenses	3,200	0	0
Creditors: unsecured	16,740	0	0
" partly secured	5,420	0	0
" fully secured	3,110	0	0
Preferential claims for salaries and rent	500	0	0
Private drawings	1,200	0	0
Samuel Hobson's Capital Account	3,800	0	0
Cash at Bank	420	0	0
Bills receivable, good	800	0	0

[London Chamber of Commerce, 1908.]

Banking and Bank Book-keeping—

Exercise 105.

(a) Describe briefly the books of account which you would expect to find in use in a Bank. State what the "General Ledger" of a Bank should contain, and what information you would expect it to afford.

[London Chamber of Commerce, 1909.]

(b) What do you understand by "Rebate on bills discounted," and how would you treat this item when preparing the Profit and Loss Account and Balance-Sheet of a Bank? [R. Soc. of A., 1909.]

(c) On June 1, 1909, Henry James discounted, at 5 per cent. per annum, with his bankers, a three months' bill, dated May 1, 1909, for £1000. The financial half-year of the Bank closed on June 30. What entries did the above transaction necessitate in the books of the Bank.

(a) On June 1, 1909.

(b) On June 30, 1909?

[Inst. of C. A., Final, May, 1910.]

Exercise 106.

The following is the Trial Balance of the Institute Bank, Ltd., at December 1, 1909:—

	£	s.	d.	£	s.	d.
Subscribed Capital 50,000 Shares, £20 each, on which £10 per share is paid up				500,000	0	0
Reserve Fund (invested in Consols)				360,000	0	0
Loans and advances	1,500,000	0	0			
Bank premises	100,000	0	0			
£450,000 Consols at 80 per cent. (Reserve Fund Investment)	360,000	0	0			
British Government securities	540,000	0	0			
Current and Deposit Accounts				3,400,000	0	0
General expenses, directors' fees, salaries and rent	35,000	0	0			
Pension Fund Account				50,000	0	0
Depreciation of premises	10,000	0	0			
Profit undivided at January 1, 1909				16,000	0	0
Interest Account (balance at credit for un- expired period of bills discounted)				15,000	0	0
Interest, Discount, etc., Account				120,000	0	0
Money at call and short notice	160,000	0	0			
Income Tax paid	2,500	0	0			
Bills discounted	420,000	0	0			
Interim dividend paid July 31, 1909	30,000	0	0			
Colonial securities	500,500	0	0			
Cash in hand and at Bank of England	803,000	0	0			
	4,461,000	0	0	4,461,000	0	0

Prepare a Balance-Sheet and a Profit and Loss Account.

[Inst. of Bankers, Final, 1910.]

Exercise 107.

(a) What is the proper endorsement for the following cheque, Mr. Andrew Smith being an illiterate person :—

Medchester,

January 1, 1908.

To the Bank of Medchester, Limited.

Pay Mr. Andrew Smith

or order

Twenty pounds

£20:0:0.

JAMES JONES & Co.

(b) Briefly state the relations which the Bank of England has to the banking world, the Government, and the general public.

(c) What is a letter of credit?

If the grantee of a letter of credit fraudulently increases the amount for which such letter is issued, what is the liability (if any) of a person negotiating, in good faith, a draft, drawn under such a document, for a larger amount than the original letter of credit was issued for?

(d) Are the following endorsements in order? If not, what are the banker's duties and responsibilities with regard to them?

(a) A cheque payable to Richard Yea or order was endorsed :—

"Jacob Oppenheim, Richard Yea's Sole Executor."

(b) A cheque payable to the Holme Parish Council was endorsed :—

"A. H. Barrow, Clerk to the Holme Parish Council."

(c) A cheque payable to Mr. Alfred Hunt or order was endorsed :—

"Mary Hunt, widow of A. Hunt."

(d) A cheque payable to John Jenkins, Esq., or order was endorsed :—

per pro J. Jenkins,
Wm. Watkins.

[R. Soc. of A., 1908.]

Exercise 108.

(a) On January 26, 1909, the Loamshire Bank obtained knowledge of an "Act of Bankruptcy" committed by their customer, Herbert Hodges. Two days afterwards (January 28, 1909) three cheques drawn by Hodges were presented for payment and duly honoured by the Bank.

What is the position and responsibility of the Bank with reference to these cheques?

(b) Give illustrations of three different methods of crossing cheques and briefly explain the effect and advantage of each crossing.

Is a banker under any liability if he disregards the instruction "A/c Payee only" as appearing as a crossing on a cheque? (See note.)

(c) On January 25, 1909, John Smith called at the Union Bank of London and paid in the following :—

	£	s.	d.
Gold	25	0	0
Bank of England notes	50	0	0
Cheque drawn on the Old Bank, York	62	0	0
Cheque drawn on the Joint Stock Bank, Princes Street, E.C.	41	0	0
	<hr/>		
	178	0	0

Trace the history of the above items as they would appear in the books of the Union Bank of London.

(d) Explain the difference (if any) between :—

- (a) A general acceptance of a bill of exchange, and
- (b) A qualified acceptance of a bill of exchange.

Give an example of each to illustrate your answer.

[R. Soc. of A., 1909.]

Exercise 109.

(a) What is a "Secret Reserve"? Give two examples showing how a Bank, or other "Financial House," could create a "Secret Reserve."

(b) The Alpha Printing Company Limited, issued 10,000 six per cent. Cumulative Preference Shares of £1 each in January, 1904. Up to and including the year ended December 31, 1906, the Preference dividends were duly paid. Since that date the profits have been insufficient, and nothing has therefore been paid to the Preference Shareholders. Does this fact need record in the books or annual accounts of the Company? If so, how would you record the same?

(c) The officials of the Shere Gunpowder Company, Limited, are as follows:—

Directors: R. Edwards (Chairman), George Hughes, Frederick Gee, and R. B. Burbridge.

Secretary: R. H. Woodside.

Bankers: London and County Banking Company, Limited.

The Company owe £142 10s. 2d. to Robert Chambers. Draw a cheque in settlement of this amount having due regard to the prevention of fraud, and to the necessity for safeguarding the personal liability of the signatories.

(d) What is a "Documentary Bill"?

Give an example, and briefly describe the documents you would expect to find attached thereto.

(e) Give three examples of "special crossings" in common use in connection with cheques. Explain, in each case, the manner in which the negotiability of the cheque is restricted by the crossings you give.

(f) A.B. obtains his Pass Book from his bankers, in which the position of his account on that day is shown by an entry of the balance. He returns the Pass Book to the Bank without objection to any of the entries in it. It is subsequently discovered that one of the items debited to him represents a cheque presented by his cashier and cashed, the cashier having forged A.B.'s signature to the cheque. Who is liable to make good the amount of the cheque so forged? Does the return of the Pass Book without comment make A.B. liable? Has A.B. to take any precautions to prevent such a forgery taking place; and if so, what?

[R. Soc. of Arts, 1910.]

Note.—The paying banker is not under any liability for disregarding the words "A/c Payee only" written across a cheque. The receiving or collecting banker may in some cases be liable to his customer for negligence if he ignores the instruction.

Solicitors' Accounts—

Exercise 110.

From the following figures extracted from the books of a firm of solicitors, draft a Balance-Sheet and Profit and Loss Account. The period is for the year ending March 31, 1909:—

	£	s.	d.
Capital Accounts	17,000	0	0
Office furniture and library	2,306	0	0
Expenses Account, including salaries	4,708	0	0
Lease of No. 3999, Lincoln's Inn Fields	4,500	0	0
Amounts due from clients for costs delivered	9,200	0	0
Amounts due from clients for costs estimated in matters not completed at this date	13,700	0	0
Amounts received from clients on account of pending matters	7,900	0	0
Amounts received and held on clients' account	3,180	0	0
Sundry amounts owing, stationery, etc.	615	0	0
Disbursements on clients' account, including counsel's fees	9,200	0	0
Cash at Bank	1,384	0	0
Cash at Bank, No. 2 Account	6,267	0	0
Cash in hand	80	0	0
Drawing Accounts	5,400	0	0
Costs settled and delivered	14,900	0	0

Interest on Capital and Depreciation have been dealt with in the presented figures. [Soc. of Incorporated Accountants, June, 1909.]

Exercise 111.

(a) Show the Chancery Cash Account in proper form containing the following receipts and payments:—

- July 1. (1) £190. Cash received from A.B., who is your agent, for rent due June 24, of a property let to C., one quarter's rent, £200, less £10 commission.
- July 3. (2) £142 10s. Dividend on railway company shares to March 31, £150, less tax, £7 10s.
- August 1. (3) £3600 from solicitor on completion of sale of a house which had been sold at auction for £4000.
- August 15. (4) £225 from auctioneer, being deposit, £400, on sale of the above house, less fees and expenses, £175.

PAYMENTS.

- July 6. Paid X. £23 10s. 2d. for interest, £25, on a mortgage of valuable property, less tax at 1s. 2d. in the £.
- August 2. Paid into Court, £3600.
- August 16. £100, solicitor's costs and expenses *re* sale of house at auction for £4000.
- August 17. £12 paid to your firm for postage and other expenses paid for the estate of which you are trustee.

(b) What are the principal words in the affidavit of a Receiver under the Court which must accompany his cash account to be submitted to the Master?
[Inst. of C. A., May, 1910.]

Executors' and Trustees' Accounts—

Exercise 112.

The following are particulars of the estate of B. Brown, who died on January 1, 1908:—

	£	s.	d.
Sundry assets as valued for estate duty	10,000	0	0
Funeral expenses	45	0	0
Cost of monument	25	0	0
Debts due at death	250	0	0
Executorship expenses	125	0	0

Upon what amount was Estate Duty charged, and at what rate?

[Inst. of C. A., Inter., June, 1910.]

Exercise 113.

In writing up an executor's accounts, under which heading, as a general rule—capital or income—would you place the following:—

- (1) Funeral expenses.
- (2) Estate Duty.
- (3) Interest on Estate Duty.
- (4) Executorship expenses.
- (5) Profits and losses on sale of investments.
- (6) Dividends on investments of testator.
- (7) Dividends on investments by executors.
- (8) Losses incurred in carrying on a business since the testator's death.
- (9) Legacies.
- (10) Annuities purchased?

[Inst. of C. A., Final, November, 1909.]

Exercise 114.

X. died on February 28, 1909, and by his will left his estate in trust for his children, the income to be paid to his widow during her lifetime. Amongst the amounts received by the trustees on behalf of the estate, are the undermentioned items. How should they be allocated as between Capital and Income in the Trustees' books?

		£	s.	d.
1909.				
(a)	March 25. Final dividend for the year ended December 31, 1908, at 8 per cent. per annum on £10,000 Ordinary Shares in A.B. & Co., Ltd. (free of tax)	500	0	0
(b)	April 8. Rent of leasehold property for quarter ended March 25, 1909 £25 Less property tax for the year 4	21	0	0
(c)	„ 6. Quarter's dividend on India 3 per cent. stock (less tax), due April 5	180	0	0
(d)	„ 21. Proceeds of realization of 500 £1 shares in Smithson's, Ltd.	650	0	0
(e)	May 1. Cash received from Life Office (being the amount of policy, less £125 premium, due at date of death)	1250	0	0

[Inst. of C. A., Inter., May, 1910.]

Exercise 115.

A. died leaving the following legacies :—

- (1) His household furniture (valued at £600) and £1500, "part of my deposit at the London and County Bank," to his wife.
- (2) £500, "part of my deposit at the London and County Bank," to his daughter.
- (3) £500 to each of his three sons.

A.'s estate, after payment of debts, duties and expenses, consisted of the following :—

- (1) Cash at bankers, £2000.
- (2) Deposit at London and County Bank, as at the date of testator's death, £1500.
- (3) The household furniture (valued as above).

Set out the "Legacies Account" which should appear in the Executors' Ledger upon the division of the estate.

[Inst. of C. A., Final, November, 1909.]

Exercise 116.

On September 29, 1908, John Smith died, leaving the following estate :—

	£	s.	d.
Cash at Bank	200	0	0
Cash in house	25	0	0
Insurance policy	10,000	0	0
Household furniture and effects	500	0	0
Loan on mortgage, 5 per cent. per annum	4,000	0	0
Leasehold property, let at £100 per annum	1,000	0	0
Sundry stocks and shares	15,000	0	0
Capital of business carried on in partnership	20,000	0	0
Profits of business to date of death, less Drawings	500	0	0
Goodwill of business (due from surviving partner)	5,000	0	0

By his will John Smith left the following legacies :—

- (1) £100, free of duty, to each of his three executors, viz. his widow, his brother, and his business partner (stranger in blood).
- (2) £15,000 and the household furniture and effects to his widow.
- (3) £50 each to his butler and coachman.

The residue of his estate was left in trust for his infant son, the income therefrom to be paid to his widow.

On January 7, 1909, the half-year's interest on the mortgage (£100), due December 25, and the quarter's rent from the leasehold property, due the same date, were received.

By January 31, 1909, sundry dividends on stocks and shares (amounting in all to £195) were received, £75 of which was in respect of dividends accrued to date of death.

The executors proved the will and paid the necessary Estate Duty.

Assuming that by June 30, 1909,

- (1) The Assets had realized the amounts as stated.
- (2) That the debts due at death (£1300), funeral expenses (£50), costs of winding up the estate (£250), and the various legacies and duties thereon had been paid, and
- (3) That the balance of the estate had been invested in India 3 per cent. Stock at 90.

- Show (a) The Executors' Cash Account.
 (b) The Estate Account.
 (c) The Legacy Account.
 (d) The Income Account, and
 (e) The Balance-Sheet at June 30, 1909.

N.B.—No other accounts are required. [Inst. of C. A., May, 1910.]

Miscellaneous Questions—

Exercise 117.

A. in London owes B. & Co. in Paris 2515 francs. B. & Co.'s Account in A.'s Ledger shows a credit balance of £100, A. having converted the francs into sterling at the rate of 25.15. A. desires to pay B. & Co. and for that purpose purchases in London a draft on Paris for 2515 francs, for which he pays at the rate of 25.18. Make the entries in A.'s books, posting up and balancing off B. & Co.'s Account.

[Inst. of C. A., Inter., 1908.]

Exercise 118.

In a business consisting of various departments, in what way would you keep the Stock Accounts so as to (a) minimize the danger of false returns by the manager, and (b) prevent theft on the part of dishonest employees.

[R. Soc. of A., 1909.]

Exercise 119.

A trader's warehouse is burnt down, and the following books, etc., which had not been placed in the safe, are destroyed, viz. Bought Ledger, Purchase Book, and Invoice Files. The list of the balances of the Bought Ledger made up to the end of the previous year and the Stock Sheets at the same date are preserved in the safe with the usual books. State in detail how you would proceed to restore sufficient records with a view to (a) the Insurance claim, and (b) the current year's Trading Account and Balance-Sheet.

[West Riding C. C., 1908.]

Exercise 120.

On December 1, 1909, W. Simmons, stockbroker, purchased, on behalf of his client, E. Hoskins, from A. Black and Co., jobbers, £13,000 Midland Railway 2½ per cent. Preference Stock. A copy of the bought note sent to E. Hoskins is as follows:—

	£	s.	d.
£13,000 Midland Railway 2½ per cent. Preference			
Stock at 75 per cent.	9750	0	0
Brokerage ½ per cent.		32	10 0
Transfer stamp		48	15 0
Contract stamp		0	1 0
Transfer fee		0	2 6
	<hr/>	<hr/>	<hr/>
	9831	8	6

442 EXERCISES AND EXAMINATION QUESTIONS

E. Hoskins, on December 12, 1909, forwarded a cheque for £9831 8s. 6d. to W. Simmons in payment, and on December 14, A. Black and Co. received payment for the stock purchased.

Enter the above transaction in W. Simmons' Journal, Cash Book and Ledger, showing the necessary personal and impersonal accounts with E. Hoskins and A. Black and Co. [Inst. of Bankers, Final, 1910.]

Exercise 121.

From the following figures relating to the Devonshire Life Assurance Company, compile its Revenue Account and Balance-Sheet for the year ending December 31, 1909, in the prescribed form.

Shareholders' capital, £250,000 in 2500 shares of £100 each, with £10 paid up on each.

	£	s.	d.
(a) Shareholders' undivided profits	33,786	0	0
Life Assurance Fund on January 1, 1909, including paid-up capital and undivided profits	1,825,412	0	0
Claims by death	93,067	0	0
Claims matured by survivance	47,466	0	0
Surrenders	8,636	0	0
Commission	8,224	0	0
Premiums	134,872	0	0
Interest, dividends and rents received	72,568	0	0
Management expenses	25,860	0	0
Dividends to shareholders	3,265	0	0
Fines and fees	201	0	0
Income Tax	3,525	0	0
Written off securities upon re-valuation	17,089	0	0
Mortgages in United Kingdom	172,332	0	0
Loans on Company's policies	90,152	0	0
Freehold ground rents	1,218,310	0	0
Claims admitted but not paid	5,846	0	0
(b) Claims announced—not admitted	22,846	0	0
Colonial Government securities	147,259	0	0
Railway shares, etc.	74,145	0	0
House property	105,292	0	0
Agents' balances outstanding	19,976	0	0
Outstanding interest and rents receivable	16,968	0	0
Outstanding premiums—Head Office	1,465	0	0
Sundry creditors	142	0	0
Cash in hand and at Bank	5,994	0	0
Furniture and fittings	2,857	0	0

(a) This item is included in the second item.

(b) This item is to be treated as a liability and is included in the claims matured.

[N. U. T., 1910.]

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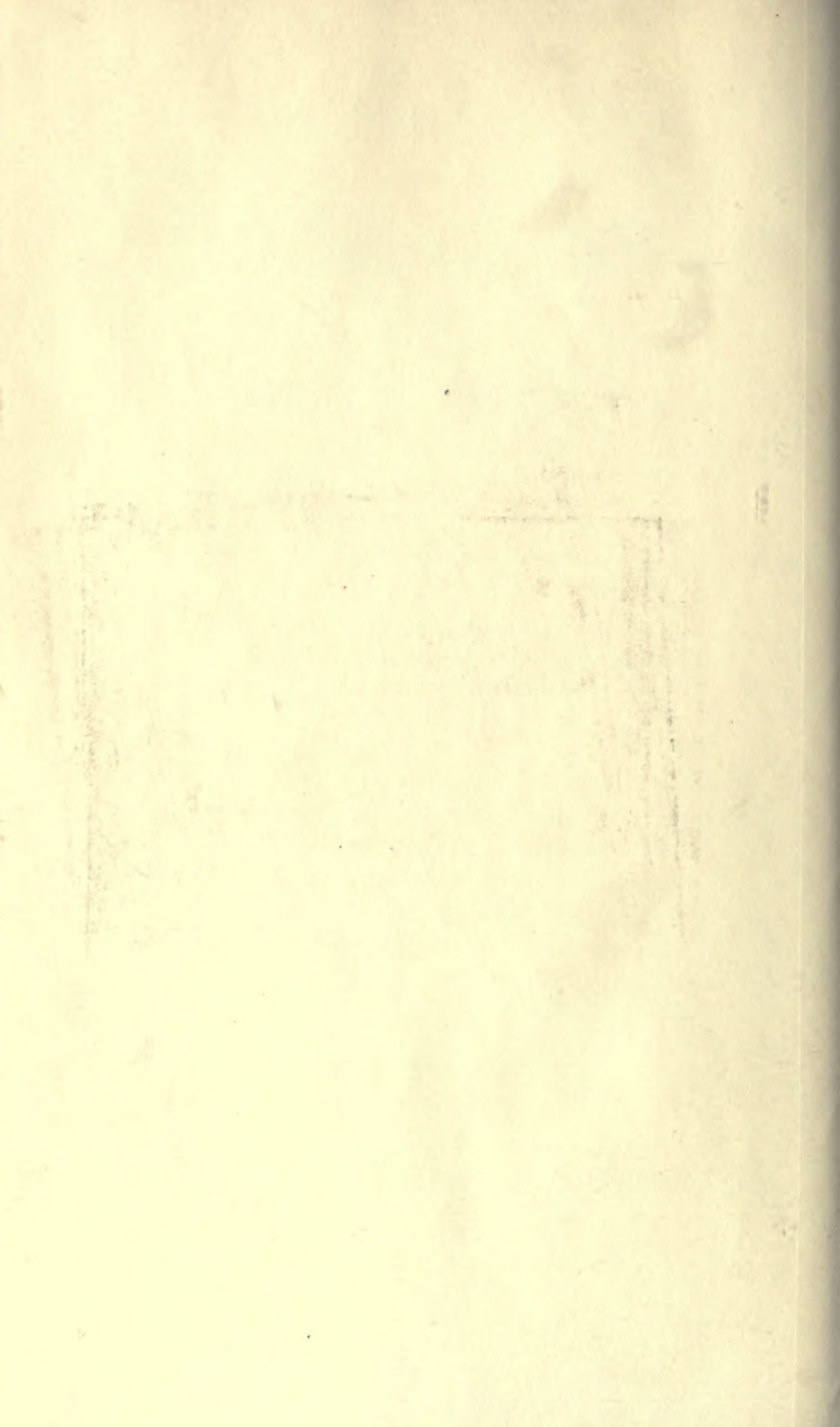
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